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Copyright, eBooks, and the Future of Digital Lending

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Public libraries face a digital lending crisis. Even as library patrons demand greater access to digital materials, eBook publishers have subjected libraries to onerous licensing terms. These include prices substantially higher than those charged to the general public, as well as stringent constraints on license duration and/or loan volume, forcing many libraries to repurchase their eBooks every one or two years. Some publishers are releasing new books only in digital formats, making it even more costly for libraries to maintain robust collections. eBook publishers also compel libraries to use specific digital lending platforms which pose risks to patron privacy. At the same time, many public libraries face budget cuts as well as politically-motivated book bans, reducing their ability to meet local patrons' needs, and forcing patrons to search for materials from other sources.

To better serve patrons, some libraries have resorted to self-help in the form of controlled digital lending (CDL), producing and lending their own scans of printed materials, lending the digital copy to only one patron at a time, while making the print copy unavailable for the duration of the digital loan. A number of these libraries have pooled their collections to provide CDL through the Internet Archive. However, under precedents interpreting the first sale rule and the fair use defense, CDL is likely to constitute copyright infringement, especially in light of the Second Circuit's 2024 decision in Hachette Book Group, Inc. v. Internet Archive.

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At the state level, actual and proposed legislation, including a recently developed Model Law, would compel eBook publishers to offer reasonable licensing terms to public libraries. However, to the extent that such laws impede the exclusive rights of copyright owners to decide whether and how to exploit their works, they are likely to be preempted by federal copyright law. A novel approach under consideration in Connecticut is likely to avoid preemption, but does not offer a complete solution to the nationwide problem.

The better solution is to amend federal copyright law to ensure that nonprofit libraries can obtain eBook licenses on reasonable terms. Such an amendment could draw inspiration from the Model Law as well as the European Union's rental right, and could take the form of either an exception or a compulsory license. Consistent with the long tradition of library exceptions already included in federal copyright law, such an amendment would recognize the critical role that libraries play in maintaining an informed electorate.

Article Contents

Introduction

The centuries-old mission of lending libraries is under threat. With the burgeoning market for digital distribution of eBooks and audiobooks, one might have expected that libraries—and their patrons—would be prime beneficiaries of a technology that enables the public to access reading materials without the need to travel to physical repositories. However, the potential to democratize access to books for those living in remote areas or lacking the physical ability or transportation to visit brick-and-mortar libraries has not been realized.

The culprit, ironically, is the digital lending license. What could have been—and still could be—the vehicle for making virtually any book available for lending at the click of a button has instead become an existential threat to libraries. In order to provide digital lending services, libraries must purchase specialized licenses from publishers. Rather than make these licenses available on reasonable terms, or even on the same terms that apply to consumers who purchase eBooks, publishers have imposed exorbitant prices and highly restrictive terms that force libraries to renew their licenses repeatedly to continue lending the materials. As a result, the cost of digital lending for libraries far exceeds the cost of lending physical copies of the same materials, which they have traditionally acquired through a one-time purchase (or even as a donation) and can continue to lend indefinitely until the physical copy is exhausted. At the same time, because libraries are compelled to use the digital technology and platforms designated by the publishers, which may collect and distribute information about their readers, libraries are no longer able to guarantee their patrons' privacy.

With the increased consumer demand for digital lending, libraries are forced to make difficult choices in their acquisitions, leading to reductions in their overall collections and a narrowing in the diversity of their offerings. The very technology that could make eBooks and audiobooks more widely accessible and enable libraries to expand their collections beyond the physical constraints of their storage facilities has instead made it more difficult for libraries to offer

the same variety and quantity of materials that once characterized their print collections. And yet, in the current political climate, the rise in book bans makes it more important than ever for libraries unaffected by these bans to maintain and expand the diversity of their collections. They must also make these collections widely available through digital lending to fill the void created by local censorship.

This Article argues that digital lending technology should be used to enhance access to books, not to restrict it by replacing copyright's traditional lending rights with licensing arrangements that reduce the public's access to copyrighted materials. It also demonstrates how this goal can be accomplished.

Part I of the Article identifies two problems arising from digital library licenses for eBooks and audiobooks: (1) the high cost and restrictive terms of those licenses, and (2) their lack of privacy protection for patrons. Part II explains why libraries engaged in unlicensed digital lending are exposed to infringement liability, even when their digital lending practice resembles the legally protected practice of lending physical books and audiobooks. Part III examines state legislative proposals that would require publishers to provide reasonable licensing terms to public libraries, but concludes that these proposals face powerful political opposition and, even if enacted, are vulnerable to legal challenges on the grounds of copyright preemption. Part IV recommends enacting a federal copyright exception or compulsory license as a superior solution to the problem, ensuring that libraries can secure eBook and digital audiobook lending licenses on reasonable terms while providing adequate privacy protections for patrons.

I. Digital Lending at a Crossroads

A. Importance of Digital Library Lending

Libraries perform an essential public function by giving all members of the public, regardless of means, the opportunity to access information and to develop and maintain their literacy so that they can take advantage of economic opportunities and

become informed and effective participants in democratic governance. According to the Pew Research Center, 95% of Americans aged 16 and older say that public libraries "play an important role in giving everyone a chance to succeed."[1] Library services are especially valued by marginalized groups, including women, African Americans, Hispanics, low-income adults, and adults with lower levels of educational attainment.[2]

However, the manner in which libraries are called upon to perform their public services has changed. While libraries have for centuries loaned books and other materials from their physical collections,[3] the demand for digital lending has increased dramatically in the last two decades. From 2010 to 2021, the number of eBooks in circulation increased from fifteen million to more than 500 million.[4] Library lending of digital content has also increased: During 2021, libraries made more than half a billion digital loans of eBooks, audiobooks, and digital magazines, an increase of fifty-five percent compared to two years earlier.[5]

Digital lending has become an essential means for providing library services to people who do not live near libraries, lack transportation, have disabilities that limit their access to physical libraries, or reside in areas where library

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[1] *How Americans Value Public Libraries in Their Communities,* Pew. Rsch. Ctr. (Dec. 11, 2013), https://www.pewresearch.org/internet/2013/12/11/libraries-in-communities [https://perma.cc/8Z2Y-VC9A].

[2] Pew, *supra* note 2.

[3] Although there are various contenders for America's first lending library, the Library Company of Philadelphia was created in 1731, at a time when books were prohibitively expensive. *See* Benjamin Franklin Historical Society, *Lending Library: How Did the Library Company Start?,* http://www.benjamin-franklin-history.org/lending-library [https://perma.cc/8CBB-ESLZ].

[4] David Moore, *Publishing Giants are Fighting Libraries on E-Books*, SLUDGE (Mar. 17, 2022), https://readsludge.com/2022/03/17/publishing-giants-are-fighting-libraries-on-e-books [https://perma.cc/ARA4-Y83U].

[5] Caitlin Dewey, *Librarians and Lawmakers Push for Greater Access to E-Books,* Pew Trusts Stateline (Sept. 6, 2022), https://stateline.org/2022/09/06/librarians-and-lawmakers-push-for-greater-access-to-e-books/ [https://perma.cc/4C5A-ASVF].

collections are inadequate for their needs.[6] Digital library lending provided crucial services at the height of the COVID-19 pandemic, enabling students and other users to continue accessing learning materials even when schools and libraries were compelled to shut down their in-person operations.[7] Digital library services will be equally critical in the event of a future pandemic or other national or regional emergency.

Digital lending is important not only because it enables libraries to serve patrons with limited access to print collections, but also because it can take place without necessarily being tied to physical libraries with their associated costs and governmental controls. Because digital lending services need not be located in the same jurisdiction as their borrowers, and need not even be affiliated with government-operated public libraries, they can preserve patrons' access to books that have been locally suppressed through censorship or defunding of traditional government-operated public libraries, or which are simply unavailable at local libraries due to budget constraints.

In the current political climate, patrons can no longer rely on their local public or school libraries to provide access to books that are considered controversial by a politically dominant segment of the community. This situation acutely

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[6] *See* Michelle M. Wu, *Piece by Piece Review of Digitize-and-Lend Projects Through the Lens of Copyright and Fair Use*, 36 LEGAL REF. SERV. Q. 51, 51, 54 (2017); Pew, *supra* note 2. While bookmobiles have made books more accessible to some remote communities, they are more limited in their geographic reach than digital lending, and are expensive to acquire and operate. *See* Christina Estes, *Check Out Phoenix Public Library's New Bookmobile,* KJZZ PHOENIX (Jan. 25, 2024, 11:09 AM), https://www.kjzz.org/2024-01-25/content-1869372-check-out-phoenix-public-librarys-new-bookmobile [https://perma.cc/RN7R-WJGH] (estimating annual operating cost at $494,000); Terra Dankowski, *By the Numbers: Bookmobiles,* AMERICAN LIBRARIES MAGAZINE (Mar. 1, 2018), https://americanlibrariesmagazine.org/2018/03/01/by-the-numbers-bookmobiles/ [https://perma.cc/5RBC-PYUG] (average cost to acquire a bookmobile was $200,000 in 2018).

[7] Argyri Panezi, *A Public Service Role for Digital Libraries: The Unequal Battle Against (Online) Misinformation Through Copyright Law Reform and the Emergency Electronic Access to Library Material*, 31 CORNELL J. L. & PUB. POL'Y 65, 68-69 (2021).

affects minority groups that have become increasingly marginalized, including racial minorities and the LGBTQ+ community.[8] A significant percentage of books currently banned from public libraries (or subject to current attempts to ban them) address matters of race, gender, and sexual orientation.[9] At first, these government-imposed bans targeted only public school libraries, severely impacting young people who may be unable to travel to brick-and-mortar public libraries that are (for now) less affected by the bans. More recently, however, these book bans have spread to public libraries not affiliated with schools.[10] In some public libraries,

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[8] Kasey Meehan, Jonathan Friedman, Tasslyn Magnusson & Sabrina Baêta, *Banned in the USA: State Laws Supercharge Book Suppression in Schools,* PEN AMERICA (Apr. 20, 2023), https://pen.org/report/banned-in-the-usa-state-laws-supercharge-book-suppression-in-schools [https://perma.cc/7NS2-BHMZ]; Sabrina Baêta, *Spineless Shelves: Two Years of Book Banning*, PEN AMERICA (Dec. 14, 2023), https://pen.org/spineless-shelves [https://perma.cc/6AA2-NCC5].

[9] *See* Meehan, Friedman, Magnusson & Baêta, *supra* note 9; Baêta, *supra* note 9; Matt Lavietes, *Over Half of 2022's Most Challenged Books Have LGBTQ Themes*, NBC NEWS (Apr. 25, 2023), https://www.nbcnews.com/nbc-out/out-politics-and-policy/half-2022s-challenged-books-lgbtq-themes-rcna81324 [https://perma.cc/C3TV-CHQE]. Books removed from Florida libraries have included dictionaries, encyclopedias, biographies of Thurgood Marshall, the Guinness Book of World Records, Ripley's Believe It or Not, and Anne Frank's Diary of a Young Girl. Gloria Oladipo, *Florida School District Pulls Dictionaries for "Sexual Content" Descriptions,* THE GUARDIAN (Jan. 11, 2024), https://www.theguardian.com/us-news/2024/jan/11/florida-schools-ron-desantis-ban-books-sexual-content [https://perma.cc/ETE2-RWW5]. Ironically, one school board has banned a book about book bans. Douglas Soule, *"Challenges Our Authority": School Board in Florida Bans Book about Book Bans,* USA TODAY (June 11, 2024), https://www.usatoday.com/story/news/nation/2024/06/12/florida-school-board-bans-book-about-book-bans/74072218007/.

[10] *See Public Library in SC Abuses Anti-Trans Law to Ban Books,* PEN AMERICA (Aug. 29, 2024), https://pen.org/press-release/public-library-in-sc-abuses-anti-trans-law-to-ban-books [https://perma.cc/B8CN-4PYC] (describing book bans in a South Carolina public library); Elizabeth A. Harris and Alexandra Alter, *Book Bans are Rising Sharply in Public Libraries*, NEW YORK TIMES (Sept. 21, 2023),

patrons under 18 are restricted to the children's section absent parental permission.[11] Even where no official bans are in place, public library staff have been fired for refusing to remove or restrict access to politically disfavored books or for speaking out against local censorship attempts.[12]

Other sources of educational information are being suppressed as well: Several states now prohibit the discussion and/or teaching of sexual orientation and gender identity in

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https://www.nytimes.com/2023/09/21/books/book-ban-rise-libraries.html (same); American Library Association, *American Library Association Reports Record Number of Unique Book Titles Challenged in 2023* (Mar. 14, 2024), https://www.ala.org/news/2024/03/american-library-association-reports-record-number-unique-book-titles [https://perma.cc/3THD-QUJY] ("The number of titles targeted for censorship in public libraries increased by 92% from 2022-23, exceeding the 11% increase for public school libraries."). Although the Fifth Circuit upheld a preliminary injunction in favor of library patrons in a case involving the politically motivated removal of books from a county library system, *Little v. Llano County*, 103 F.4th 1140 (5th Cir. 2024), the panel decision was quickly vacated and the case has been scheduled for rehearing en banc. *Little v. Llano County*, 106 F.4th 426 (5th Cir. 2024).

[11] Kelly Jensen, *When Do Parents Trust Their Children with Materials at the Library?* BOOK RIOT (Dec. 15, 2023), https://bookriot.com/when-do-parents-trust-their-children-with-materials-at-the-library [https://perma.cc/7YAG-FRHQ]. To comply with Idaho's law, one library is now completely closed to minors. Authors Guild, *Idaho Library Goes "Adults Only" in Response to State Book Banning Law* (May 23, 2024), https://authorsguild.org/news/idaho-library-goes-adults-only-in-response-to-state-book-banning-law/ [https://perma.cc/4FPZ-S5JJ]. Since then, the library has joined with several publishing houses to challenge the law in court. Rebecca Boone, *Publishers, a Library and Others Sue over Idaho's Law Restricting Youth Access to 'Harmful' Books,* AP NEWS (Feb. 5, 2025), https://apnews.com/article/idaho-book-ban-lawsuit-publishers-authors-libraries-08f74182fdf52d8ddb04ee4196f3fef9.

[12] Casey Kuhn, *Library Book Ban Attempts are at an All-Time High. These Librarians are Fighting Back*, PBS (Apr. 15, 2024), https://www.pbs.org/newshour/arts/attempts-to-ban-books-are-at-an-all-time-high-these-librarians-are-fighting-back. The ACLU has filed suit on behalf of an Arkansas public library direcctor who was fired merely for speaking out against the county's proposed book ban. Andrew Demillo, *ACLU Sues on Behalf of Librarian Fired after Opposing Book Censorship Effort,* AP NEWS (Feb. 3, 2025, 6:01 PM), https://apnews.com/article/arkansas-library-director-censorship-lawsuit-aclu-73ba7740d372ae391dba59a84a958954.

public schools.[13] Even at the college level, books about gender and diversity have been removed and destroyed.[14] Under these circumstances, online libraries and libraries willing to extend digital lending to non-local patrons may be the only option for many readers seeking information on locally suppressed subject matter that is important to their education, health, safety, and well-being.[15]

The convergence of digital lending technology, pandemic lockdowns, and proliferating book bans has led to the

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[13] At least seven states have adopted such laws, and several have been challenged in federal court. *See* Jeff McMillan, Andrew DeMillo & Geoff Mulvihill, *What to Know about a Settlement that Clarifies What's Legal Under Florida's "Don't Say Gay" Law,* AP NEWS (Mar. 12, 2024), https://apnews.com/article/dont-say-gay-florida-settlement-schools-lgbtq-f7850eedcb8bc6a117690d2b84aff671. The most publicized of these laws is Florida's "Don't Say Gay" and "Don't Say They" laws, H.B. 1557 and H.B. 1069 respectively, which became effective on July 1, 2022 and July 1, 2023. *See* National Education Association, *What You Need to Know about Florida's "Don't Say Gay" and "Don't Say They" Laws, Books Bans, and Other Curricular Restrictions,* (2023), https://www.nea.org/sites/default/files/2023-06/30424-know-your-rights_web_v4.pdf_[https://perma.cc/9H7V-RUQ9]. As originally enacted, the laws prohibited all *mentions* of sexuality or gender identity in public schools. *Id.* However, after litigation leading to a settlement in 2024, the law now prohibits only *teaching* about sexuality and gender identity. *See* Equality Florida, *Historic Settlement Achieved in Challenge to Florida's "Don't Say Gay or Trans" Law* (Mar. 11, 2024) https://eqfl.org/historic-settlement-achieved-challenge-floridas-dont-say-gay-or-trans-law [https://perma.cc/3S8Q-7BK7].

[14] *See* Russ Bynum, *Discarded Gender and Diversity Books Trigger a New Culture Clash at a Florida College*, ASSOCIATED PRESS (Aug. 16, 2024), https://apnews.com/article/books-dumped-new-college-of-florida-desantis-21d3bbda902291cafdade0f34b029583.

[15] There is significant precedent holding that viewpoint-motivated removal of books from school and public library collections violates the First Amendment. *See, e.g.,* Board of Educ., Island Trees Union Free School Dist. v. Pico, 457 U.S. 853, 872 (1982) (plurality opinion); *Little*, 2024 WL 2860213 at *5; Campbell v. St. Tammany Parish School Bd., 64 F.3d 184, 191 (5th Cir. 1995). However, as indicated by the facts of *Little* and voluminous media reports, this body of law does not seem to have deterred recent state and local book removal efforts. *See supr*a notes 11-13. In addition, these precedents address only book *removal*, thus leaving open the question whether local governments can impose viewpoint-related restrictions on library *acquisitions*.

emergence of nonprofit online lending libraries. Two such libraries are the Internet Archive (IA) and the Queer Liberation Library (QLL). Online libraries can often provide access to books that have been removed from, or are otherwise unavailable from, traditional school or public libraries. IA, for example, lends digital copies of books that are located in a consortium of libraries rather than just a single library.[16] QLL's mission is to provide access to "queer-related eBooks and audiobooks."[17] QLL was launched in October 2023 in response to book bans removing LGBTQ-related books from school libraries.[18] With no government support, QLL is staffed by volunteers and subsists entirely on donations,[19] with technological support from the Nonprofit Organization for Philanthropic Initiatives.[20] It charges no fees for lending.[21]

By providing patrons with materials they cannot readily obtain from traditional libraries, whether due to book bans or due to other collection limitations, online libraries can provide a valuable supplement to physical libraries. Their digital lending can serve a nationwide consumer base, which is crucial for patrons whose local libraries are unable (or not permitted) to provide the materials they need. For a variety of reasons, digital lending services have thus become central to the mission of both traditional public libraries and nonprofit online libraries. However, as discussed below, the licenses that libraries must obtain from copyright owners to offer these services are becoming prohibitively expensive, prompting

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[16] For details of IA's digital lending activities, *see infra* notes 161-165 and accompanying text.

[17] Riley Roliff, *This New Ohio-Based Digital Queer Liberation Library is Made 'by and for the Queer Community,'* BUCKEYE FLAME (July 4, 2023), https://thebuckeyeflame.com/2023/07/04/queer-liberation-library [https://perma.cc/K6ZG-DVX6].

[18] *Id.*

[19] Elizabeth Wolfe, *Book Bans are Harming LGBTQ People, Advocates Say. This Online Library is Fighting back,* CNN (Dec. 16, 2023), https://www.cnn.com/2023/12/16/us/queer-liberation-library-combats-lgbtq-book-bans-reaj/index.html [https://perma.cc/S2TU-B33D].

[20] *Programs*, NONPROFIT ORGANIZATION FOR PHILANTHROPIC INITIATIVES, https://www.thenopi.org/members (listing QLL as a supported program).

[21] Roliff, *supra* note 17.

some libraries to explore alternatives that could expose them to liability for copyright infringement.

B. Problems with Library eBook Licenses

1. Licensing Costs

Publishers do not allow libraries to own the digital copies of eBooks and audiobooks they lend out, instead requiring them to operate as licensees.[22] This also means that, unlike physical materials, patrons cannot donate eBooks to a library.[23] Thus, building a collection of lendable digital materials can be prohibitively expensive. Although no precise figures are available, it is estimated that libraries in the United States spend between $425 million and $520 million per year for access to digital content.[24]

By any measure, the cost of eBook licenses for libraries has become exorbitant, even though publishers can produce eBooks without incurring the printing and shipping costs associated with traditional hard copies.[25] While pricing and terms vary, a library eBook license typically costs about sixty to eighty dollars for two years or twenty-six loan-outs.[26] These

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[22] Moore, *supra* note 4.

[23] Whereas formerly, audiobooks could be donated when in the form of tapes or CDs, most audiobooks are now computer files licensed to a user.

[24] Michael Blackwell, *The eBook Study Group is Live!*, READERS FIRST (Apr. 12, 2023), https://www.readersfirst.org/news/2023/4/12/the-eBook-study-group-is-live [https://perma.cc/C4F3-FK4Y].

[25] Molly Flatt, *Digital-Only Imprints in the EBook Era: Inclusive or Exploitative?,* THE GUARDIAN (June 21, 2013), https://www.theguardian.com/books/booksblog/2013/jun/21/digital-imprints-publishing-eBook [https://perma.cc/DT2N-4UR2].EBook

[26] Dewey, *supra* note 5; Jennie Rothschild, *Hold On, eBooks Cost HOW Much? The Inconvenient Truth About Library eCollections,* SMART BITCHES TRASHY BOOKS (Sept. 6, 2020), https://smartbitchestrashybooks.com/2020/09/hold-on-eBooks-cost-how-much-the-inconvenient-truth-about-library-ecollections [https://perma.cc/FV3K-WEU3].

prices are considerably higher than the prices that consumers pay to acquire the same digital versions of the same books.[27]

eBook (and audiobook) licenses are also considerably more expensive than physical copies of the same materials.[28] When a library owns a physical copy, it can lend the same copy for decades (or until it wears out) without paying anything beyond the initial purchase price (which could be zero, if the book were donated).[29] In contrast, when a patron "borrows" an eBook but does not read it, this still counts against the library's check-out quota, thus imposing a cost on the library by shortening the term of its license.[30] Publishers seeking to maximize profits are free to delay the availability of library licenses, or to deny them altogether, in order to sell more digital content directly to consumers.[31]

While demand for eBooks has increased, a spate of mergers has consolidated the publishing industry into five major publishers.[32] This has led to reduced price competition:[33] the

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[27] Dewey, *supra* note 5; Rothschild, *supra* note 26. For the most popular titles, the American Library Association reports that publishers charge libraries $55 for a two-year license, or $550 for a 20-year license, whereas a consumer would pay only $15 for a perpetual license. Moore, *supra* note 4.

[28] Robert Roose, *The True Cost of eBooks and Audiobooks for Libraries*, SPOKANE LIBRARY BLOG (Jan. 14, 2025), https://www.spokanelibrary.org/the-true-cost-of-ebooks-and-audiobooks-for-libraries/ [https://perma.cc/YFD9-3DWE]; Daniel A. Gross, *The Surprising Big Business of Library E-Books*, THE NEW YORKER (Sept. 2, 2021), https://www.newyorker.com/news/annals-of-communications/an-app-called-libby-and-the-surprisingly-big-business-of-library-e-books.

[29] Rothschild, *supra* note 26.

[30] Gross, *supra* note 28.

[31] Dewey, *supra* note 5.

[32] Moore, *supra* note 4. The Big Five are Penguin Random House, Hachette, HarperCollins, Simon & Schuster, and Macmillan. Jim Milliot, *Over the Past 25 Years, the Big Publishers Got Bigger—and Fewer,* PUBLISHERS WEEKLY (Apr. 19, 2022), https://www.publishersweekly.com/pw/by-topic/industry-news/publisher-news/article/89038-over-the-past-25-years-the-big-publishers-got-bigger-and-fewer.html.

[33] *See*, *e.g.*, United States v. Bertelsmann SE & Co. KGaA, 646 F.Supp. 3d 1 (D.D.C. 2022) (blocking a proposed merger between two of the Big Five publishers, Penguin Random House and Simon & Schuster, which would

cost for a library eBook license tripled between 2013 and 2022.[34]

Due to the high cost of digital licenses, libraries seeking to meet the digital lending demand within their limited budgets must spend more money on fewer titles.[35] This leads them to prioritize best sellers to the detriment of emerging authors as well as the breadth of their overall collections.[36] In addition, digital patrons often face long waits for popular titles, because the library cannot afford to maintain a sufficient number of licenses to meet the demand.[37]

In some cases, publishers offer their new books *only* in electronic formats.[38] Where these libraries could in the past acquire permanent ownership of a physical book for a single payment, with the right to lend it to an unlimited number of patrons until the copy was physically exhausted, they must now pay for a license to lend an electronic copy of the book for a limited period of time and then pay for periodic renewals to continue making that book available to patrons.[39]

When public libraries cannot afford the electronic licenses they need, they must choose how to allocate their funding

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have controlled more than half of the book market). *See also* Daniel Takash & Jennie Rose Halperin, *Let's Talk Systemic Market Failures: What the Penguin Random House/Simon & Schuster Merger Means for Libraries* (December 1, 2021), https://www.libraryfutures.net/post/what-the-penguin-random-house-simon-schuster-merger-means-for-libraries [https://perma.cc/5XYP-2PLY]; Alexandra Alter & Elizabeth A. Harris, *Judge Blocks a Merger of Penguin Random House and Simon & Schuster,* NEW YORK TIMES (Oct. 31, 2022), https://www.nytimes.com/2022/10/31/books/penguin-random-house-simon-schuster.html.

[34] Moore, *supra* note 4.

[35] Dewey, *supra* note 5.

[36] *Id.*

[37] Dewey, *supra* note 5; Gross, *supra* note 28; Rothschild*, supra* note 26.

[38] Flatt, *supra* note 25; Brewster Kahle, *The US Library System, Once the Best in the World, Faces Death by a Thousand Cuts*, THE GUARDIAN (Oct. 9, 2023), https://www.theguardian.com/commentisfree/2023/oct/09/us-library-system-attack-digital-licensing [https://perma.cc/ZX4J-LS34].

[39] *Id.* These issues are acknowledged by the Department of Commerce Internet Policy Task Force. INTERNET POLICY TASK FORCE, DEPARTMENT OF COMMERCE, WHITE PAPER ON REMIXES, FIRST SALE, AND STATUTORY DAMAGES 47-48 (Jan. 2016) [hereinafter *White Paper*].

between their physical and digital collections, potentially leaving them unable to meet the needs of different sectors in their communities. Because public libraries as well as public school libraries are government-funded, the costs of their eBook licenses are typically borne by taxpayers.[40] This makes library eBook licensing a matter of significant fiscal concern.[41]

Even libraries that operate entirely online, such QLL, face difficulties in paying for the digital licenses required to carry out their nonprofit lending activities. Because it does not have to purchase print copies or maintain brick-and-mortar facilities for the storage of physical books, QLL can devote most of its resources to paying for eBook licenses. Even so, its limited budget and donation-dependent funding have compelled it to make difficult choices in building and maintaining its collection.[42]

2. Nullification of Copyright Exceptions and Limitations

The copyright statutes contain several exceptions and limitations that enable public libraries and archives to carry out their public service functions. For example, sections 108(d) and

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[40] Gross, *supra* note 28.

[41] In 2021, Senator Ron Wyden and Representative Anna G. Eshoo sent letters to each of the Big Five publishers, as well as the aggregators that act as licensing agents and also operate the eBook lending platforms used by libraries, citing the financial difficulties that eBook licenses have created for libraries and asking the publishers to respond to questions about their licenses. *Library Victory! Wyden and Eshoo Demand Answers from Big Publishers,* LIBRARY FUTURES (Sept. 24, 2021), https://www.libraryfutures.net/post/library-victory-wyden-and-eshoo-demand-answers-from-big-publishers [https://perma.cc/5XYP-2PLY]; Press Release, Office of Senator Ron Wyden, *Wyden and Eshoo Press for Answers on Restrictive E-Book Agreements That Limit Libraries' Digital Lending* (Nov. 18, 2021), https://www.wyden.senate.gov/news/press-releases/wyden-and-eshoo-press-for-answers-on-restrictive-e-book-agreements-that-limit-libraries-digital-lending [https://perma.cc/5BN5-FLV4].eBookeBook

[42] Personal communication with Kieran Hickey, Library Director, Queer Lending Library (Feb. 5, 2024) (on file with author).

(e) allow libraries to make and distribute copies[43] of works, under strict conditions, for the purpose of interlibrary loans.[44] Section 108(c) permits libraries to make up to three copies of a work in order to replace a copy that is damaged, lost or stolen, or that is stored in an obsolete format.[45] In addition, some libraries are eligible under section 121 to copy and distribute works in accessible formats (such as braille or audio formats) for the print-disabled. [46] Finally, under appropriate circumstances libraries can rely on the fair use exception to permit activities not specifically authorized by these other provisions.

However, the terms of eBook licenses typically require libraries to surrender these rights with respect to the licensed material.[47] As a result, libraries not only pay more for eBooks than for physical books, but they also sacrifice rights that are integral to federal copyright law and policy.

3. Privacy Concerns

The current system of eBook licensing presents problems with respect to patrons' privacy. While libraries have traditionally protected the privacy of their patrons by treating their borrowing records as confidential,[48] electronic licenses

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[43] The exceptions apply to both "copies" and "phonorecords." For historical reasons, the 1976 Act uses the term "phonorecord" rather than "copy" to describe tangible reproductions of sound recordings. 17 U.S.C. § 101 (defining "copies" and "phonorecords"). Congress adopted this term after the Supreme Court held in 1908 that player piano rolls were not "copies" of musical compositions. *See* White-Smith Music Publishing v. Apollo Co., 209 U.S. 1, 17-18 (1908). For simplicity, however, any reference to a "copy" or "copies" in this discussion encompasses phonorecords as well.

[44] 17 U.S.C. § 108(d)-(e).

[45] *Id.* §108(c). The preservation copies must not leave the library premises. *Id.* For more on this topic, *see* White Paper, *supra* note 39, at 48-49.

[46] 17 U.S.C. § 121.

[47] American Library Association, Testimony of Alan Inouye in Support of S 2514 (Apr. 8, 2024), https://alair.ala.org/server/api/core/bitstreams/6a0a4b56-ef93-4a62-99ad-914ff466ee87/content [https://perma.cc/CX6S-6R9F].

[48] *See* Laura Hautala, *What e-Books at the Library Mean for Your Privacy,* CNET (Apr. 8, 2019), https://www.cnet.com/tech/services-and-software/what-e-books-at-the-library-mean-for-your-privacy/ [https://perma.cc/MT59-WG76].

may no longer guarantee this level of privacy as these licenses may permit publishers to collect and exploit data about readers.[49] The software used by publishers and libraries to lend licensed eBooks may also be plagued by cybersecurity flaws that enable third parties to access or manipulate user data.[50]

OverDrive, the lending platform that publishers typically require libraries to use under their eBook licenses, collects a significant amount of data for each user that borrows an eBook, "including but not limited to, IP address, device type, device ID, operating system, library card number, Adobe ID, library name, lending history, holds, reading progress, bookmarks, highlights, notes, and online activity."[51] Thus, while libraries themselves may wish to treat the reading histories of their eBook patrons as confidential, both the libraries and the patrons may be unaware that the providers of their eBooks are not bound by that obligation.

For libraries to protect their eBook patrons' privacy, they must first understand the privacy terms of the eBook licenses they purchase. For smaller libraries lacking legal expertise, this step alone can be challenging.[52] Even if a library is in a position to evaluate the terms of a publisher's proposed license, it may lack the bargaining power to compel the publisher to provide greater protection for their patrons' privacy. If publishers take the position that their licenses are non-negotiable, libraries will face a difficult choice: accept the loss of patron privacy, or forego eBook licenses altogether. Forming a coalition to negotiate better privacy terms collectively may seem like an attractive option, but it could potentially run afoul of antitrust

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[49] Kahle, *supra* note 38.
[50] Hautala, *supra* note 48. *See also White Paper, supra* note 39, at 49-50.
[51] OVERDRIVE PRIVACY POLICY, https://company.cdn.overdrive.com/policies/privacy-policy.htm [https://perma.cc/S6PZ-98ER] (last visited Feb. 2025).
[52] Library coalitions are attempting to fill this void. *See, e.g.,* Center for Research Libraries, LIBLICENSE: Licensing Digital Content, https://liblicense.crl.edu/licensing-information/model-license [https://perma.cc/8BSF-KZFL] (providing its own widely-used model license, and providing links to others).

laws.[53] While several library associations have created model license agreements to assist individual libraries in evaluating publishers' eBook licenses, it is still up to the individual libraries to push back against the publishers' license terms.[54]

In contrast, if libraries can produce their own digital copies, these can be surveillance-free.[55] Although there will still be privacy risks associated with the e-reader technology used by the library patron, through collective action libraries could adopt their own e-reader platform incorporating greater privacy protections.[56]

II. Controlled Digital Lending

A. Overview of Controlled Digital Lending

As discussed above, lending licenses for digital materials have become increasingly unaffordable for libraries. In addition, publishers may be unwilling to offer libraries digital licenses for some of the materials they wish to include in their digital lending programs. This makes it difficult for libraries to perform their essential services.[57]

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[53] Such a coalition could be considered a combination in restraint of trade under the Sherman Antitrust Act, 15 U.S.C. §§ 1-38.

[54] Center for Research Libraries, *supra* note 52; *see also* CUNY Library Licensing Guide: EBooks, https://guides.cuny.edu/c.php?g=270690&p=2237037 [https://perma.cc/BL5J-QTJM] (instructing university librarians to review e-book license clauses with respect to user data privacy protections).

[55] Lia Holland & Jade Pfaefflin Bounds, *E-books are Fast Becoming Tools of Corporate Surveillance*, FAST COMPANY (Dec. 12, 2023), https://www.fastcompany.com/90996547/e-books-are-fast-becoming-tools-of-corporate-surveillance.

[56] *See* Cindy Cohn, *Updated and Corrected: E-Book Buyer's Guide to Privacy,* ELECTRONIC FRONTIER FOUND. (Jan. 6, 2010), https://www.eff.org/deeplinks/2010/12/2010-e-book-buyers-guide-e-book-privacy [https://perma.cc/6REU-4R5X] (explaining that widely used e-readers such as Amazon Kindle and Google Books also collect data on the books and pages that a user reads).

[57] *See* Maria Bustillos, *A Book is a Book is a Book – Except When It's an E-book,* THE NATION (Aug. 30, 2023), https://www.thenation.com/article/

Some libraries have attempted to overcome these problems through a practice known as controlled digital lending (CDL). A library engaging in CDL will lend one digital copy of a work for each physical or digital copy in the library's possession.[58] For each digital copy that is on loan to a patron, the library will refrain from circulating one of its copies until the loaned copy is returned.[59] Thus, if a library possesses five copies of a book (obtained through acquisitions or donations), and it lends out one digital copy, then for the duration of that loan the library will make only four copies of the book available for loan to other patrons.[60] In this way, the library maintains a 1:1 "loaned to owned" ratio.[61] When properly implemented, a CDL system uses technological measures to prevent borrowers from saving permanent digital copies or distributing copies to others.[62]

A number of brick-and-mortar public libraries have implemented CDL systems.[63] Some operate independently, while others work cooperatively through IA, which lends

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culture/internet-archive-lawsuit-libraries-books/ [https://perma.cc/6KLE-RUDE] (arguing libraries should only have to pay for e-book once); Fight for the Future, *1000+ Authors For Libraries*, https://www.fightforthefuture.org/Authors-For-Libraries [https://perma.cc/5VE2-HSEF] (open letter from authors to publishers, distributors, and trade associations, in support of better eBook access for libraries).

[58] Michelle Wu, *Piece-by-Piece Review of Digitize-and-Lend Projects through the Lens of Copyright and Fair Use*, 36 LEGAL REF. SERV. Q. 51, 52 (2017).

[59] Lila Bailey, Kyle K. Courtney, David Hansen, Mary Minow, Jason Schulz & Michelle Wu, *Position Statement on Controlled Digital Lending by Libraries*, https://controlleddigitallending.org/statement [https://perma.cc/4S6P-HBD6].

[60] *Id.*

[61] *Id.*

[62] *Id.*

[63] David R. Hansen & Kyle K. Courtney, *A White Paper on Controlled Digital Lending of Library Books* 3, https://controlleddigitallending.org/whitepaper/ [https://perma.cc/5MMR-2KWK] (identifying Boston Public Library, Allen County Public Library, and Georgetown University Law Library as ones that have implemented CDL services). *See also* Los Rios Community College District, *Research Guides: CDL*, https://researchguides.crc.losrios.edu/cdl [https://perma.cc/B68Q-QCFQ] (describing the Los Rios Community College district's use of CDL services).

digital works to patrons under a 1:1 loaned-to-owned ratio that is based on their combined collections.[64]

By digitizing materials and making them available to patrons who cannot access the library where they are housed, libraries engaging in CDL can continue to perform their essential services. They can even extend those services to patrons located outside their immediate community. This is important for patrons whose local library collections have been depleted due to censorship or funding challenges. In addition, libraries can expand patrons' access to materials that are out of print or in short supply.

B. Legal Issues with CDL

Unfortunately, CDL presents significant legal issues. These arise from the technological processes involved in digital lending. For example, if a library possesses only a hard copy of a work, the library must first digitize the work—creating an unlicensed copy—before lending it out. Even if the library already possesses an authorized digital copy of the work, the lending process involves making at least one additional copy.[65] Regardless of whether the library owns or licenses its copy of the work, reproducing and distributing a digital copy of the work without the copyright owner's consent potentially constitutes copyright infringement.

Although states and state actors enjoy Eleventh Amendment immunity from suits seeking damages for copyright infringement,[66] that immunity does not extend to cities, counties, or school districts,[67] or to non-governmental entities such as IA or QLL. Public libraries operated by cities and counties, therefore, are not shielded by the Eleventh Amendment, nor are the libraries of city- or county-operated

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[64] *Id.*

[65] *See infra* Part II.B.1 .

[66] Allen v. Cooper, 589 U.S. 248, 257 (2020).

[67] *See* Northern Insurance Co. v. Chatham County, 547 U.S. 189, 193 (2006) (immunity does not extend to a county); Moor v. County of Alameda, 411 U.S. 693 (same); Lincoln County v. Luning, 133 U.S. 529 (1890) (same); Mount Healthy City Board of Educ. v. Doyle, 429 U.S. 274 (1977) (immunity does not extend to a school district); Workman v. City of New York, 179 U.S. 552 (1900) (immunity does not extend to a city).

colleges. Furthermore, even though state actors are immune from liability for copyright damages, copyright owners can still enjoin individual state workers from engaging in infringing conduct.[68] Thus, even libraries operated by state governments (including state college and university libraries) could find their CDL activities disrupted or curtailed. As a result, public libraries that engage in CDL—and the governments responsible for them—must consider whether their activities constitute copyright infringement. This is also true for non-government-operated libraries such IA and QLL.

Advocates of CDL have taken the position that, if properly implemented, CDL will not give rise to infringement liability.[69] In reaching this conclusion, they rely on two statutory exceptions to the exclusive rights of copyright owners—the first sale rule and fair use.[70] As discussed below, however, they are unlikely to succeed in their first sale argument, and their prospects for a successful fair use defense are highly uncertain.

1. The First Sale Doctrine: An Outdated Statutory Scheme

The relevant rules of copyright law were not created with digital lending in mind. Rather, they were designed during, and for, an era in which books were distributed only in physical copies.[71] As a result, they are inadequate to address the current need for digital lending of literary works.[72]

Under the Copyright Act of 1976, copyright owners enjoy a number of exclusive rights with respect to their works, of which

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[68] *Ex Parte* Young, 209 U.S. 123 (1908).

[69] Lila Bailey, Kyle K. Courtney, David Hansen, Mary Minow, Jason Schulz & Michele Wu, *Position Statement on Controlled Digital Lending by Libraries*, https://controlleddigitallending.org/statement [https://perma.cc/4QBA-UKC8].

[70] *Id.*

[71] Most of the relevant provisions in the Copyright Act of 1976 were drafted between the 1960s and the 1980s and have not been amended since the development of eBooks. The first sale rule was judicially created and was first codified in the Copyright Act of 1909. U.S. COPYRIGHT OFF., DMCA Section 104 Report, 20-23 (2001), https://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf [https://perma.cc/HW24-FZC7].

[72] *See* Kahle, *supra* note 38.

the two most relevant to digital lending are the exclusive rights to reproduce the work in copies and to distribute those copies to the public.[73] Congress defined the term "copies" broadly, to encompass any "material objects . . . in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device."[74] Under this broad definition, the exclusive right to copy extends to digitized content, because the computer storage medium—be it a hard drive, a remote server, or a flash drive—is the "material object" in which the work is fixed.

While Congress may have been forward-thinking in drafting its definition of a "copy," it was not equally visionary in addressing the rights of purchasers to dispose of their lawfully acquired copies. As a result, owners of traditional physical copies enjoy privileges that owners of digital copies may not. Indeed, the latter are often not "owners" at all. In particular, the "first sale rule" originated as an exception to the copyright owner's exclusive distribution right, allowing people who purchased copies of books to sell, rent, lend, or otherwise dispose of them without the copyright owner's consent.[75] Ironically, today it presents an obstacle to those very activities, when the copies in question are digital rather than traditional physical copies.

As codified in section 109(a) of the Copyright Act of 1976, the first sale rule permits the owner of a lawfully made copy to "sell or otherwise dispose of the possession of that copy" without the consent of the copyright owner.[76] In the case of a book, for example, the owner of a copy can sell, lend, rent, or give away that particular copy without the permission of the copyright owner. With respect to physical copies of books, this

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[73] 17 U.S.C. § 106(1)-(3).

[74] *Id.* § 101.

[75] The Supreme Court recognized the first sale doctrine in 1908, in *Bobb-Merrill Co. v. Straus*, 210 U.S. 339, 350-51 (1908). It was then codified in the Copyright Act of 1909, 17 U.S.C. § 41 (1909), and, later, in section 109 of the Copyright Act of 1976, 17 U.S.C. § 109. *See also* S. Rep. No. 94-473, at 71 (1975).

[76] 17 U.S.C. § 109(a).

is the crucial provision that has permitted libraries to carry out their traditional lending functions.[77]

Unfortunately, in the case of digital materials such as eBooks, the first sale privilege has become largely obsolete for two reasons, both of which have a critical impact on digital library lending.

One reason is that copyright owners that distribute their works in digital formats increasingly have opted to license rather than sell the digitized copies, as is the case with licensed eBooks. In this situation, the first sale rule does not apply because the purchaser is not actually the "owner" of its lawfully acquired copy, but is a mere licensee, having purchased only a license to use the work, subject to conditions that may prohibit transferring possession of the copy, including lending.[78] Courts have largely permitted this practice, even though it eliminates the purchaser's first sale rights.[79]

The second reason is that, regardless of whether a copyright owner has chosen to sell or license its digital copies, if the purchaser/licensee attempts to transfer its copy of the digital file to another, either by sale or lending, the transfer process implicates not only the distribution right but also the reproduction right.[80] As codified in the federal copyright statutes, the first sale rule does not authorize reproduction.[81]

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[77] S. Rep. No. 94-473, *supra* note 75, at 71-72 ("A library that has acquired ownership of a copy is entitled to lend it under any conditions it chooses to impose.").

[78] *See* Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135, 146-47 (1998) ("[T]he first sale doctrine does not provide a defense to . . . any non-owner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful."); S. Rep. No. 94-473, *supra* note 75, at 73 ("Acquisition of an object embodying a copyrighted work by rental, lease, loan, or bailment carries with it no privileges to dispose of the copy under section 109(a)").

[79] *See*, *e.g.*, Vernor v. Autodesk, Inc., 621 F.3d 1102, 1103-04 (9th Cir. 2010) (holding that the first sale rule did not apply to defendant reseller who purchased physical copies of software from source that was mere licensee).

[80] *See infra* note 82 and accompanying text.

[81] 17 U.S.C. § 109(a); S. Rep. No. 94-473, *supra* note 76, at 72 ("[T]he owner of the physical copy or phonorecord cannot reproduce or perform the copyrighted work publicly without the copyright owner's consent.").

Because section 109(a) is not expressly limited to print copies of a work, it can encompass digital copies as well. However, in the case of digital copies, how an owner sells or disposes of that copy is arguably crucial in determining whether the first sale rule applies. For example, if a person sells a lawfully made digital copy of the work by selling the physical storage medium on which the file is stored—such as a CD, DVD, hard drive, or flash drive—this transaction involves nothing more than disposing of "possession of that copy," and thus fits comfortably within the statutory language. In contrast, if the seller wishes to retain the physical storage medium and sell only the digital file, under the current state of technology the transaction necessarily involves making a copy of the file. Even if the seller promptly deletes his or her own copy, there will be a brief interval during the transfer process where two copies of the work coexist. Because section 109(a) does not expressly authorize reproduction of a work, and digital transfers involve something more than merely transferring possession of a lawfully made copy, several authorities have concluded that the first sale rule is not broad enough to encompass digital file transfers.[82]

The first sale rule's failure to allow for secondary markets for digital copies affects consumers who wish to acquire books, sound recordings, motion pictures, software, videogames, and other works that are commonly distributed in digital form. The loss of secondary markets reduces price competition, forcing consumers to pay whatever price the copyright owner establishes for new copies.[83] Arguably, there be some offsetting benefits for consumers. For example, if the cost of licensing digitized works is less than the cost of purchasing them in traditional physical formats that may wear out, suffer damage, become technologically obsolete, or be lost or stolen, requiring costly replacements. In addition, most consumers have no need to lend their copies on a repeated basis.

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[82] Capitol Records, Inc. v. ReDigi LLC., 910 F.3d 649 (2d Cir. 2018), *cert. denied*, 139 S.Ct. 2760 (2019); DMCA Section 104 Report, *supra* note 71, at 78-79.

[83] *See* R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. Rev. 577, 585-90 (2003).

In contrast, for nonprofit libraries, the demise of the first sale rule has had an especially egregious effect. The traditional function of these libraries—to repeatedly lend copies of literary works to researchers and/or members of public at no cost, for purposes of study, self-improvement, increasing literacy, and/or simple enjoyment—provides an incalculable public benefit.[84] If literary works become more costly to lend due to digitization, libraries can no longer afford their essential functions. As a result, consumers that once may have been able to borrow copies of works from libraries may be faced with buying or licensing those copies instead, which, for lower-income consumers, may be cost-prohibitive. The final result is decreased access to information, especially for already underserved people.

Under current law, libraries that engage in unlicensed digital lending face a significant risk of infringement liability. Although no case thus far has involved traditional public libraries, several authorities have concluded that transferring even a single digital copy of a copyrighted work involves an unauthorized reproduction and therefore is not permitted by the first sale rule. Since their reasoning was not limited to for-profit activities, their conclusions appear equally applicable to nonprofit libraries.

The only judicial authority is the Second Circuit's 2018 decision in *Capitol Records, Inc. v. ReDigi LLC*.[85] The defendant ReDigi offered a service that enabled owners of digital music files to transfer ownership of those files without also transferring the tangible media (e.g., iPods or flash drives) on which the files were stored. ReDigi's software first verified that the music file had been lawfully purchased from iTunes and had not been tampered with.[86] It also searched the owner's hard drive to detect duplicate files, and blocked initiation of

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[84] *See* Kahle, *supra* note 38 ("Mindful of a long history of autocratic tyranny over the dissemination of books, Benjamin Franklin – a publisher and printer by trade – started the first subscription library in the US to spread knowledge widely.").

[85] 910 F.3d 649 (2d Cir. 2018).

[86] Eligible files also included files that had originally been purchased from iTunes, then subsequently resold on ReDigi. *Id.* at 652-53, 653 n.4.

the transfer process until any duplicates had been removed.[87] Once a user's file was found to be eligible, ReDigi transferred a copy of the file to its own remote server. Under conventional methods for transferring digital files, the original file and the copied file would coexist until someone deleted the original file, thus allowing two copies of the file to exist simultaneously, even if that co-existence was only temporary.

However, ReDigi designed its system to prevent this. Instead of copying an entire file all at once, ReDigi copied only one portion of the file at a time—a single data "packet"—first to a buffer, and then to ReDigi's server. ReDigi's software then immediately deleted that packet of data from permanent storage on the seller's computer. This process was repeated until the entire file resided on ReDigi's server and had been deleted from the seller's computer. At this point, the new owner of the file could either stream it from ReDigi's server or download it permanently; in the latter case, ReDigi simultaneously deleted the file from its own server.[88] As a result of this packet-by-packet process of reproduction and deletion, ReDigi contended that the complete music file never existed in two places at once.[89]

The district court rejected ReDigi's first sale defense, for two reasons. First, ReDigi's file transfer process created an unauthorized reproduction of the copyrighted file, an action that is not authorized by the first sale rule.[90] Second, because the reproduced file was not a "lawfully made" phonorecord, it did not meet a key threshold requirement of the first sale rule.[91]

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[87] *Id.* at 654.

[88] In contrast to its a detailed description of ReDigi's process for transferring files from sellers to the ReDigi server, the court did not provide details on the process of transferring those files from ReDigi to the purchasers who chose to download rather than stream them. *Id.* As a result, it is impossible to say whether ReDigi's process prevented the buyer's copy from co-existing with ReDigi's copy during the download.

[89] *Id.* at 656.

[90] *Id.* The first sale rule permits the sale or disposition of a copy or phonorecord, not its reproduction. 17 U.S.C. § 109(a).

[91] *ReDigi,* 910 F.3d at 656. The first sale rule protects only the owner of a "lawfully made" copy or phonorecord. 17 U.S.C. § 109(a).

The Second Circuit affirmed, based on the first reason alone.[92] In the appellate court's view, it did not matter that the seller's and buyer's copies of the complete music file did not co-exist. Even though the buyer's copy of the complete digital file did not exist until the seller's copy had been deleted, the buyer's copy of the file was nonetheless a *new* tangible copy (or, more precisely, a new "phonorecord"[93]) that had not existed before. For purposes of the first sale analysis, therefore, the key question was not whether multiple copies ever co-existed, but whether a *new* copy was *created*. Answering this question in the affirmative, the Second Circuit rejected the first sale defense.[94] Thus, despite ReDigi's efforts to avoid multiplying the number of copies in existence, the mere act of creating a new copy constituted infringement.[95]

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[92] The appellate court expressly declined to rule on the district court's second rationale. *ReDigi,* 910 F.3d at 656.

[93] See the explanation of this terminology in *supra* note 43.

[94] *ReDigi,* 910 F.3d at 657-58; *see also* Disney Enterprises, Inc. v. Redbox Automated Retail, LLC, 336 F.Supp.3d 1146, 1156 (C.D. Cal. 2018) (even though copyright owner created an authorized copy in the user's cloud-based "locker," first sale did not permit unauthorized user to reproduce that copy by downloading it onto user's computer).

[95] Recognizing that many other computer activities involve the creation of duplicate files, the Second Circuit attempted to distinguish between infringing and non-infringing duplicates:

> We recognize that the use of computers with digital files of protected matter will often result in the creation of innocuous copies which we would be loath to consider infringements because doing so would effectively bar society from using invaluable computer technology in relation to protected works. We believe this precedent will not have that undesirable effect for reasons discussed below in the section on fair use. What we consider here is that the making of unauthorized reproductions in pursuit of an objective to distribute protected matter in competition with the rights holder. The production of innocuous, unauthorized reproductions through the unavoidable function of a computer, when done for purposes that do not involve competing with the rights holder in its exclusive market, is outside the scope of this dispute.

ReDigi, 910 F.3d at 658 n.12.

In subsequent guidance, the Register of Copyright has endorsed a similar analysis. In reports issued in 2001 and 2016, the Copyright Office concluded that digital file transfers do not qualify for protection under the first sale rule, because they result in the creation of a new file.[96]

The Supreme Court declined to hear *ReDigi*.[97] In light of this case, and the Register of Copyright's endorsement, courts will be understandably reluctant to apply the first sale rule to lending transactions that involve even temporary copies of digital works, because technological safeguards will be necessary to prevent permanent multiplication of copies. While temporary reproduction of digital content accompanied by immediate deletion of the source file would yield the same result as a physical transfer of the storage medium, courts appear to be ill-equipped to determine which technologies, if any, provide the safeguards necessary to guarantee this result. If such technologies exist, now or in the future, it is Congress, not the courts, that will be in the best position to determine their adequacy and to amend the first sale rule to encompass them.[98] In addition, if the first sale rule is amended to allow digital resales, in order for the amendment to have any impact (with respect to all consumers, not just libraries), it will have to apply to licensees as well as owners.

While digital lending by nonprofit libraries is different from the activity at issue in *ReDigi,* those differences do not affect the analysis under the first sale rule. The lending libraries' actions lead not only to the creation of a *new* copy, but to a *multiplication* of the number of copies in existence at any given time, even if the library can ensure that the new copy is deleted at the end of the loan period. Thus, the extent of copying is

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[96] U.S. COPYRIGHT OFF., *The Making Available Right in the United States* 22 n.94 (2016); DMCA Section 104 Report, *supra* note 71, at 79-80.

[97] ReDigi Inc. v. Capitol Records, LLC, 139 S.Ct. 2760 (2019) (denying certiori).

[98] For example, in the Home Audio Recording Act of 1992, Congress created a limited right to make personal copies of recorded music, but required the manufacturers of digital audio recording devices to incorporate the Serial Copy Management System or comparable technology into their recording devices in order to prevent second-generation copying. 17 U.S.C. § 1002(a)-(b).

even beyond that at issue in *ReDigi*. While nonprofit libraries do not distribute their copies for commercial gain, this difference will not avoid a finding of prima facie infringement under the Second Circuit's analysis, because economic motives are irrelevant to the prima facie case. However, as discussed in the next section, they can play a significant role in the fair use analysis.

2. Digital Library Lending as Fair Use

In light of the *ReDigi* decision, together with the Register of Copyright's expressed views,[99] courts are likely to hold that unlicensed digital lending by nonprofit libraries is unprotected by the first sale rule. Can libraries rely instead on a fair use defense? Assuming that they can afford to raise this defense in the first place, their prospects are uncertain.[100] Although CDL advocates have argued that fair use applies, the answer is far from clear. As this section will demonstrate, while it is conceivable that a court could find this defense applicable, recent Supreme Court decisions suggest that this will be an uphill battle for the libraries.

As codified in section 107, the fair use analysis considers four non-exhaustive factors:

> (1) the purpose and character of the use, including whether the use is of a commercial nature or is for nonprofit educational uses;
>
> (2) the nature of the copyrighted work;
>
> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
>
> (4) the effect of the use on the potential market for or value of the copyrighted work.[101]

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[99] *See supra* note 96 and accompanying text.
[100] *See* Thomas F. Cotter, *Fair Use and Copyright Overenforcement*, 93 IOWA L. REV. 1271, 1290-91 (2008) (suggesting that fair use defense is underutilized due to cost of attorneys' fees and uncertainty of success).
[101] 17 U.S.C. § 107(1)-(4).

The analysis is highly fact-specific, making all but the simplest cases difficult to predict.[102] In addition, the Supreme Court's overall approach to the defense has changed significantly over time, reducing the importance of commerciality while placing significant emphasis on the degree to which the adds something significant to the copyright work—two trends which do not harbor well for nonprofit digital lending.

In the context of nonprofit digital lending, the second factor, the nature of the work, should be one of the more clearcut factors weighing against fair use. The Supreme Court's fair use jurisprudence has repeatedly emphasized that this factor is more likely to favor the copyright owner of a work that is highly creative such as fiction, music, art, or motion pictures, as opposed to a work that consists largely of facts or other uncopyrightable material.[103]

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[102] The Conference Committee Report on the 1976 Act makes this clear:

> [T]he endless variety of situations and combinations of circumstances that can rise in particular cases precludes the formulation of exact rules in the statute. The bill endorses the purpose and general scope of the judicial doctrine of fair use, but there is no disposition to freeze the doctrine in the statute, especially during a period of rapid technological change. Beyond a very broad statutory explanation of what fair use is and some of the criteria applicable to it, the courts must be free to adapt the doctrine to particular situations on a case-by-case basis.

H.R. Rep. No. 94-1476, at 65-66 (1976); *see also* Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 448 n.31 (quoting the Conference Committee Report on the 1976 Act).

[103] *See* Andy Warhol Found. for the Visual Arts, Inc. v. Goldsmith, 598 U.S. 508, 551 (2023) (rejecting a fair use defense, and noting that accused infringer did not challenge appellate court's finding that the second fair use factor favored plaintiff photographer); Google LLC v. Oracle Am., Inc., 593 U.S. 1, 29 (2021) (because plaintiff's software declaring code was, "if copyrightable at all, further than are most computer programs . . . from the core of copyright," this factor favored fair use); Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 586 (1994) ("some works are closer to the core of intended copyright protection than others, with the consequence that fair use is more difficult to establish when the former works are copied");

Nonprofit libraries lend works of fiction as well as nonfiction. Because works of fiction are highly creative, they are "closer to the core" of copyrightable expression,[104] whereas mere factual compilations receive weaker copyright protection.[105] However, even the nonfiction works in a typical library—works about history, geography, economics, the arts, and the natural and social sciences—are generally works of authorship displaying far more creativity than mere data collections. In addition, even works with relatively thin copyrights can be protected against verbatim copying.[106] Therefore, in the case of digital library lending, this factor should generally favor the copyright owners.[107]

Stewart v. Abend, 495 U.S. 207, 237 (1990) ("In general, fair use is more likely to be found in factual works than in fictional works."); Harper & Row Pubs., Inc., v. Nation Enterprises, 471 U.S. 539, 563 (1985) ("[t]he law generally recognizes a greater need to disseminate factual works than works of fiction or fantasy"); *see also* Feist Publications, Inc. v. Rural Tel. Serv. Co., Inc., 499 U.S. 340, 348-51 (1991) (factual compilations have "thin" copyrights); Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 455 n.40 (1984) ("Copying a news broadcast may have a stronger claim to fair use than copying a motion picture.")

[104] Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 586 (1994).

[105] Blanch v. Koons, 467 F.3d 244, 256 (2d Cir. 2006).

[106] *See* Authors Guild v. Google, Inc., 804 F.3d 202, 220 (2d Cir. 2015) (with respect to factual works, copyright protects the author's "manner of expressing those facts").

[107] It has been suggested that the nature of the work actually has little impact on the fair use analysis. *See* Fox News Network, LLC v. TVEyes, Inc., 883 F.3d 169, 178 (2d Cir. 2018) (rejecting argument that factual nature of news reports "militates in favor of fair use"); Authors Guild v. Google, Inc., 804 F.3d 202 (2d Cir. 2015) (stating that the nature of the work "has rarely played a significant role in the determination of a fair use dispute") (citing William F. Patry, Patry on Fair Use § 4.1 (2015)). It is true, of course, that the Supreme Court once rejected a fair use claim involving a factual work (*Harper & Row*) and has twice shown a willingness to entertain the fair use defense in cases involving creative works (music in *Campbell,* motion pictures in *Sony*). However, these examples simply demonstrate that the nature of the work is only one consideration in the overall fair use analysis. The Second Circuit has stated that this factor "may be of limited usefulness" when the defendant's use is transformative, *Bill Graham Archives v. Dorling Kindersley Ltd*., 448 F.3d 605, 612 (2d Cir. 2006); *accord, Blanch v.*

Because digital lending usually involves reproducing a work in its entirety, the second fair use factor, the amount and substantiality of the portion copied, will generally favor the copyright owner, at least when considered apart from the other fair use factors. Nonetheless, the Supreme Court and several appellate courts have held certain uses to be fair even where wholesale copying is involved. In *Sony v. Universal City Studios*, for example, the Supreme Court held that copying free television programs in their entirety was fair use where the copying was performed by individuals in their homes for the noncommercial purpose of watching the programs at a more convenient time.[108] The Second Circuit has twice recognized that fair use can permit the digital copying of entire books—in the *Hathitrust* and *Google Books* cases—because the digital copies made it possible for researchers to conduct full-text word searches.[109] In these cases, courts have placed significant weight on the nature and purpose of the copying and its effect on the market for the plaintiff's work. Therefore, as discussed below, libraries might be able to overcome the finding of wholesale copying by making a strong showing regarding the purpose and character of their use and/or the effect on the market for the copyrighted work.

Based strictly on the text of section 107, the "purpose and character" fair use factor would seem to favor nonprofit libraries engaged in digital lending, because the statute expressly requires courts to consider "whether the use is of a

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Koons, 467 F.3d 244, 257 (2d Cir. 2006), but assigns it greater weight when the defendant's use is not transformative. *See* Andy Warhol Found. for Visual Arts, Inc. v. Goldsmith, 11 F.4th 26, 45 (2d Cir. 2021), *aff'd,* 598 U.S. 508 (2023). In the two most recent Supreme Court decisions, there was a positive correlation between the creativity of the plaintiff's work and the plaintiff's ability to overcome the fair use defense. *See Warhol*, 598 U.S. at 551 (rejecting fair use, noting that petitioner did not challenge Second Circuit's finding that nature of the work favored copyright owner); *Google LLC,* 593 U.S. at 28 (finding fair use where software merited only weak protection).

[108] Sony Corp. of Am. v. Universal City Studios, 464 U.S. 417, 449-50 (1984).

[109] Also, while the databases *included* the entire works, they did not *display* those works in their entirety.

commercial nature or is for nonprofit educational purposes."[110] It is certainly reasonable to describe the activities of a typical nonprofit lending library as noncommercial as well as, to a significant degree, educational. Despite the statutory language, however, the "purpose and character" factor will not necessarily favor nonprofit libraries. This is because of the requirement of "transformativeness," a judicial gloss on section 107 which increasingly has come to dominate the fair use analysis.

To find a Supreme Court precedent that is clearly favorable to the libraries with respect to the purpose and character of the use, one must go back to the Court's first fair use opinion, in the *Sony* case, which was decided before the Court adopted the transformativeness requirement. [111] In *Sony*, even though members of the public were copying motion pictures in their entirety, the Court ultimately held that their use was fair because, among other things, the copying was for the purpose of "private, noncommercial time-shifting in the home."[112] The Court went on to state that noncommercial, nonprofit uses were presumptively fair, although this presumption could be overcome by other fair use factors.[113]

In contrast, under the Court's post-*Sony* rulings, the second factor is not so clearly favorable to the libraries. Beginning with *Campbell v. Acuff-Rose Music, Inc.,* the "purpose and character" analysis has turned not only on the commerciality of the defendant's use, but also on whether that use is "transformative."[114] Thus, the extent to which a particular use is or is not commercial must always be weighed against the

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[110] 17 U.S.C. § 107(1).
[111] *Sony Corp. of Am.*, 464 U.S. 417 (1984).
[112] *Id.* at 442.
[113] *Id.* at 449-51. In addition to noting that the television programs in question were broadcast to the viewers for free, *id.* at 449, the Court also considered the fourth fair use factor–the effect on the plaintiff's market–because "[e]ven copying for noncommercial purposes may impair the copyright holder's ability to obtain the rewards that Congress intended him to have." *Id.* at 450.
[114] Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 579 (1994).

degree to which it is transformative.[115] Under the Supreme Court's most recent rulings, it can be argued that transformativeness has become even more important than commerciality.[116] In addition, under these precedents, it is a close question whether a nonprofit library's lending of digital works is transformative.[117]

Beginning with *Campbell,* the Supreme Court has consistently held that a transformative use exists when the defendant's use "adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message," as opposed to a use that "merely 'supersede[s] the objects' of the original creation."[118] Even if digital lending is noncommercial and educational, noncommerciality is the only significant difference between the library's activity and that of the copyright owner that distributes copies of the same work, by sale or license, for commercial gain. To the extent that the copyright owner steps into the shoes of the original creator (the author), therefore, the library's activity merely supersedes the objects of the original creator. That would mean that the library's use of the work is noncommercial but also nontransformative. In the overall fair use analysis of library lending, these two components of the "purpose and character factor" could cancel

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[115] *Id.* at 579-80; Andy Warhol Found. for the Visual Arts, Inc. v. Goldsmith, 598 U.S. 508, 531 (2023).

[116] *See infra* notes 119-23 and accompanying text.

[117] *See infra* note 123 and accompanying section.

[118] *Acuff-Rose Music, Inc.,* 510 U.S. at 579 (1994) (quoting Folsom v. Marsh, 9 F. Cas. 342, 348 (No. 4,901) (CCD Mass. 1841)); *accord, Warhol,* 598 U.S. at 523; Google LLC v. Oracle America, Inc., 593 U.S. 1 (2021). The Court's analysis has changed in one respect: In *Campbell*, the Court focused on whether the defendant's unauthorized derivative work was transformative. In *Warhol,* its most recent decision, the Court focused on whether the particular *use* of the defendant's unauthorized derivative work was transformative, concluding that while Andy Warhol engaged in fair use when he painted a portrait that imitated the plaintiff's photograph of the musician Prince, the defendant's licensing of that portrait to illustrate a magazine article about Prince was not fair use. *Warhol,* 598 U.S. at 541-42. To the extent that this changes the fair use analysis with respect to unauthorized derivative works, it seems unlikely to affect the analysis with respect to the wholesale copying that occurs in in library lending.

one another out, rendering this factor neutral, or, if transformativeness is deemed more important, could lead a court to find that this factor weighs against the libraries.

Indeed, in its 2021 decision in *Google v. Oracle America*, the Supreme Court appeared to elevate transformativeness over noncommerciality.[119] Applying *Campbell*'s definition of transformativeness, the Court held that Google's unauthorized use of the plaintiff's software (Java APIs, which the plaintiff used only for laptop and desktop applications) in order to create smartphone applications, while undoubtedly commercial, was also transformative:

> Here Google's use of the Sun Java API seeks to create new products. It seeks to expand the use and usefulness of Android-based smartphones. Its new product offers programmers a highly creative and innovative tool for a smartphone environment. To the extent that Google used parts of the Sun Java API to create a new platform that could be readily used by programmers, its use was consistent with that creative "progress" that is the basic constitutional objective of copyright itself.[120]

To define that objective, the Court relied on its own statement in *Feist Publications v. Rural Telephone Service* that "[t]he primary objective of copyright is not to reward the labor of authors, but '[t]o promote the Progress of Science and useful Arts.'"[121] Even if the "progress" involves for-profit activities, under the *Google* analysis it may be transformative enough to overcome its commerciality.

The *Google* case is unlikely to help the libraries in their fair use defense of digital lending. Unlike Google's use of the Sun Java API, digital lending by libraries does not directly create, or facilitate the creation of, new products. If it does so at all, it is only indirectly, through its educational impact.

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[119] Google LLC v. Oracle Am., Inc., 593 U.S. 1, 30 (2021).

[120] *Id.*

[121] *Id.* (quoting *Feist Publications, Inc. v. Rural Telephone Service Co, Inc.,* 499 U.S. 340, 349-50 (1991)).

The strongest argument for treating digitization and electronic lending as transformative is that it provides new functionality for the work, enabling it to reach audiences that the publisher is unwilling or unable to serve. Digital lending makes the work accessible to users who are unable to borrow authorized copies from the library, either because they lack physical access to a library or because the library does not possess an authorized (physical or electronic) copy of the book. The library might not possess an authorized copy because of budget constraints, or because local government authorities have forbidden the library to carry the book. On the other hand, like the defendant in *ReDigi*, the digital lenders do not provide criticism, commentary, or other information with respect to the work, nor do they "add[] something new, with a further purpose or different character, altering the [originals] with new expression, meaning or message." [122] The digital lenders are simply making the works available to those who cannot afford to purchase pr license them. While this is a laudable purpose in terms of public welfare, it may not be transformative in the sense required by the Supreme Court.

At the appellate level, a number of courts have addressed transformativeness in cases involving the wholesale copying of literary works.[123] The oldest of these precedents, *American Geophysical Union v. Texaco, Inc.,*[124] involved photocopying rather than digitization. The defendant in that case was a commercial entity that encouraged its research staff to photocopy articles from scientific journals in order to keep them at hand for research purposes. The photocopying served several purposes: it made it possible to circulate the journals among the staff quickly and return them to the library where they would be available to others, enabled researchers to bring

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[122] *See e.g.,* Capitol Records, Inc. v. ReDigi LLC., 910 F.3d 649, 661 (2d Cir. 2018); Hachette Book Group, Inc. v. Internet Archive, 664 F.Supp.3d 370, 380 (S.D.N.Y. 2023).

[123] *See* Authors Guild, Inc. v. Google, Inc., 804 F.3d 202, 214 (2d Cir. 2015); Authors Guild, Inc. v. Hathitrust, 755 F.3d 87 (2d Cir. 2014); A.V. *ex rel.* Vanderhye v. iParadigms, LLC, 562 F.3d 630 (4th Cir. 2009); Am. Geophysical Union v. Texaco, Inc., 60 F.3d 913 (2d Cir. 1994).

[124] 60 F.3d 913 (2d Cir. 1994).

the articles into a lab in a form less bulky than the entire journal issue or a bound volume of multiple issues, and protected the originals from being damaged in the lab through exposure to chemicals.[125] Even though the photocopying served these useful purposes, the Second Circuit still found that it was not transformative. The photocopying did not transform the underlying copyrighted work itself; it only transformed the material object in which that work was embodied.[126] Even though the new format was more useful, the primary purpose of the copying was merely archival.[127]

In *Authors Guild, Inc. v. Hathitrust,*[128] a nonprofit organization made available unauthorized digital copies of entire books in a full-text searchable database. In contrast to *American Geophysical*, the Second Circuit found this to be a "quintessentially transformative use."[129] Absent any "evidence that the Authors write with the purpose of enabling text searches of their books," it concluded that "the result of a word search is different in purpose, character, expression, meaning, and message from the page (and the book) from which it is drawn."[130] The defendant's act of "enabling full-text search" therefore did not "merely repackage[] or republish[] the originals," but "add[ed] to the original something new with a different purpose or character."[131] Notably, however, the defendant's search function only identified the books in which the users' search terms appeared; it did not allow users to view excerpts from the books.[132]

Drawing on its *Hathitrust* analysis, in *Authors Guild v. Google*, *Inc.* (hereinafter "*Google Books*"), the Second Circuit found that the unauthorized digitization of books by Google—a for-profit entity—was transformative because it enabled users to search for books containing terms of interest.[133] Unlike

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[125] *Id.* at 918-19.
[126] *Id.* at 923.
[127] *Id.* at 924.
[128] 755 F.3d 87 (2d Cir. 2014).
[129] *Id.* at 97.
[130] *Id*.
[131] *Id.*
[132] *Id.* at 91.
[133] 804 F.3d 202, 216 (2d Cir. 2015).

Hathitrust, Google did not merely identify the books in which the search term appeared; it also allowed users to view "snippets" of the passages in which those terms appeared.[134] In the Second Circuit's view, however, this made Google's activity even *more* transformative:

> Google's division of the page into tiny snippets is designed to show the searcher just enough context surrounding the searched term to help her evaluate whether the book falls within the scope of her interest (without revealing so much as to threaten the author's copyright interests). Snippet view thus adds importantly to the highly transformative purpose of identifying books of interest to the searcher.[135]

Although the court ultimately held that Google's copying constituted fair use, it cautioned that the case "tests the boundaries of fair use."[136]

The Fourth Circuit has also treated wholesale digitization as transformative. In *A.V. ex rel. Vanderhye v. iParadigms, LLC,* the defendant, a commercial operation, digitized and archived student essays in their entirety to facilitate plagiarism reviews.[137] The court found that the defendant's use was transformative even though it did not add any new expression to the works, because the use "was completely unrelated to expressive content," and thus "had an entirely different function and purpose than the original works."[138]

In contrast, the Second Circuit found wholesale copying to be insufficiently transformative in *Fox News Network, LLC v. Tveyes, Inc.*, which involved a commercial video news clipping service that recorded entire television broadcasts and compiled them into a text-searchable database that enabled its clients to search for items of interest based on keywords, time, date,

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[134] *Id.* at 217.
[135] *Id.* at 218.
[136] *Id.* at 206.
[137] 562 F.3d 630 (4th Cir. 2009).
[138] *Id.* at 639-40.

and/or channel.[139] Utilizing the service's "Watch" function, clients could watch an unlimited number of relevant video clips, each up to ten minutes long.[140] In this respect, TVEyes' service resembled the "snippet" function in *Google Books*. Here, however, clients could also save their clips by archiving them on the TVEyes server or downloading them onto their own computers and could email clips to other parties.[141] Notably, the plaintiff's infringement claim encompassed only the Watch function, not the defendant's initial recording or the client-initiated archiving.[142] In evaluating the purpose and character of TVEyes' use, the Second Circuit treated the copying as transformative, finding it comparable to the copying at issue in *Google Books*:

> TVEyes's copying of Fox's content for use in the Watch function is similarly transformative insofar as it enables users to isolate, from an ocean of programming, material that is responsive to their interests and needs, and to access that material with targeted precision. It enables nearly instant access to a subset of material—and to information about the material—that would otherwise be irretrievable, or else retrievable only through prohibitively inconvenient or inefficient means.[143]

The *TYEyes* court also drew an analogy to the home video recording of television broadcasts that the Supreme Court held to be a fair use in *Sony Corporation v. Universal City Studios, Inc*.[144] Although *Sony* was decided before the "transformativeness" terminology was put into use, the Second Circuit concluded that the concept was already implicit in the *Sony* Court's analysis: "[T]he apparent reasoning was that a secondary use may be a fair use if it utilizes technology to

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[139] 883 F.3d 169, 173-75 (2d Cir. 2018).
[140] *Id.*
[141] *Id.* at 175.
[142] *Id.* at 176.
[143] *Id.* at 177.
[144] 464 U.S. 417 (1984).

achieve the transformative purpose of improving the efficiency of delivering content without unreasonably encroaching on the commercial entitlements of the rights holder."[145] Based on this analogy, the Second Circuit concluded that TVEyes' Watch function was "at least somewhat transformative," because it achieved the transformative purpose of enhancing efficiency:

> [I]t enables TVEyes's clients to view all of the Fox programming that (over the prior thirty-two days) discussed a particular topic of interest to them, without having to monitor thirty-two days of programming in order to catch each relevant discussion; and it eliminates the clients' need even to view entire programs, because the ten most relevant minutes are presented to them. Much like the television customer in Sony, TVEyes clients can view the Fox programming they want at a time and place that is convenient to them, rather than at the time and place of broadcast.[146]

However, the Second Circuit rejected the argument that the Watch function was transformative merely because it facilitated its clients' research activities. TVEyes contended that enabling its clients to conduct research and analysis was transformative because this served a purpose different from the purpose of the original content. [147] Citing *American Geophysical Union,* the court observed: "That a secondary use can facilitate research does not itself support a finding that the secondary use is transformative." [148] Ultimately, the court concluded that the transformative character of the Watch function was "modest at best," because it did "little if anything to change the content itself or the purpose for which the

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[145] *TVEyes, Inc.*, 883 F.3d at 177. *Sony* involved home video recording of television broadcasts for the purpose of private home viewing at a more convenient time ("time shifting"). *Sony,* 464 U.S. at 423.
[146] *TVEyes, Inc.*, 883 F.3d at 177-78.
[147] *Id*. at 178 n.4.
[148] *Id.*

content is used." [149] Because this modest level of transformativeness was outweighed by the fair use considerations that favored the plaintiff, the court concluded that TVEyes' Watch function was not a fair use.[150]

Appellate courts have also addressed fair use claims involving wholesale copying of non-literary works. In the case of recorded music, for example, the Second Circuit in *ReDigi* found that the temporary copying of entire music files in order to carry out a commercial sale of the files was not transformative: "ReDigi makes no change in the copyrighted work. It provides neither criticism, commentary, nor information about it. Nor does it deliver the content in more convenient and usable form to one who has acquired an entitlement to receive the content." [151] As in *American Geophysical*, transformativeness did not arise merely from making content more readily available to users. In contrast, the Second Circuit in *Bill Graham Archives v. Dorling Kindersley Ltd*. found that the reproduction of entire concert posters in a book about the history of the Grateful Dead was transformative.[152] While the original purpose of the posters was both expressive and promotional, the reproductions in the book were for historical purposes, their size was greatly reduced, they were intermingled with text and other images, and quantitatively they amounted to less than one percent of the book.[153]

As these cases illustrate, digitizing works in their entirety, and making them (or some segment thereof) available to the public without alteration may be transformative, depending on the defendant's purpose. If the purpose is significantly different from the author's (or copyright owner's) purpose in creating or exploiting the work, it is more likely to be transformative. In contrast, if the defendant's use of the work has essentially the same purpose as the original work, courts are unlikely to find

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[149] *Id.* at 181.
[150] *Id.*
[151] Capitol Records, Inc. v. ReDigi LLC., 910 F.3d 649, 661 (2d Cir. 2018).
[152] Bill Graham Archives v. Dorling Kindersley Ltd., 448 F.3d 605, 609 (2d Cir. 2006).
[153] *Id.* at 609-11.

the use transformative, even if it benefits the public by making the work more widely accessible.

The case for treating digital lending as transformative does not stack up well against these appellate precedents. In each of the post-*Sony* decisions, the transformativeness of wholesale copying has depended on whether the copying had a purpose distinct from increasing the accessibility of the work. Because the essential purpose of digital lending is to provide access, and the lending does not change the content or add additional information or functionality to the work, it will be difficult to persuade a court that a library's unauthorized digital lending program is transformative.

Libraries will also face difficulty under the fourth fair use factor, the effect of the use on the market for the copyrighted work. The test under this factor is whether the defendant's unauthorized activity, were it to become widespread, would serve as a market substitute for authorized copies (or adaptations) of the copyrighted work.[154] The very purpose of digital licenses is to enable the copyright owner to control the distribution of the work. A library's unlicensed distribution of the same work potentially displaces a license for that work.[155] Of course, this displacement is only potential and is certainly not likely to be one-for-one: A consumer that borrows a free digital copy from the library might not be willing or able to purchase the licensed version. However, there is a stronger market substitution effect if one considers the library itself as the consumer: if libraries can cost-effectively create and

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[154] Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 590 (1994); Harper & Row Pubs., Inc., v. Nation Enterprises, 471 U.S. 539, 550, 568-69; Folsom v. Marsh, 9 F. Cas. 342, 344-45 (CCD Mass. 1841); S. Rep. No. 94-473, at 65 (1975) ("[A] use that supplants any part of the normal market for a copyrighted work would ordinarily be considered an infringement," and "[i]solated instances of minor infringements, when multiplied many times, become in the aggregate a major inroad on copyright that must be prevented.").

[155] This is equally true when libraries lend physical copies, since the copies on loan displace potential sales by the publisher. However, in the case of physical copies, this displacement is specifically authorized by the first sale rule. 17 U.S.C. § 109.

distribute their own digital copies, then they will have no reason to purchase licenses from the copyright owners.

However, the Supreme Court's decision in *Google v. Oracle* added an additional element to the market effect analysis which could work in the libraries' favor. *Oracle* was the first Supreme Court decision to consider public benefits as a mandatory element of the fourth fair use factor, asking whether the public benefits of a defendant's unauthorized use are "comparatively important, or unimportant, when compared with the dollar amounts likely lost" by the copyright owner.[156] This new wrinkle in the fair use analysis creates an opportunity for libraries to argue that the public benefits of CDL outweigh the harm to publishers. On the other hand, it remains to be seen whether the Court will be faithful to its new approach to the fourth factor, or whether it will once again relegate consideration of "public benefits" to the first fair use factor.[157] Overall, the fourth factor still presents a significant challenge to the libraries, because the proponent of fair use bears the burden of proof as to each of the fair use factors, and proving a negative—the absence of significant market harm—is notoriously difficult.[158]

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[156] Google LLC v. Oracle America, Inc., 593 U.S. 1, 36 (2021). Indeed, in its previous fair use decision in *Campbell*, the Court suggested that even a benefit to the copyright owner's market had no place in analyzing the effect on the market: "Even favorable evidence, without more, is no guarantee of fairness. Judge Leval gives the example of the film producer's appropriation of a composer's previously unknown song that turns the song into a commercial success; the boon to the song does not make the film's simple copying fair." *Campbell,* 510 U.S. at 590 n.21 (citing Pierre N. Leval, *Toward a Fair Use Standard,* 103 HARV. L. REV. 1105, 1124 n.84 (1990)).

[157] Considering public benefits under the fourth factor could be seen as double counting, since public benefits are already considered under the first fair use factor.

[158] *See* Lydia Pallas Loren, *Fair Use: An Affirmative Defense?,* 90 WASH. L. REV. 685, 707 (2015) (noting that the presence of harm is easier to prove than the absence of harm); Ned Snow, *Proving Fair Use: Burden of Proof as Burden of Speech*, 31 CARDOZO L. REV. 1781, 1800 (2010) (arguing that requiring the defendant to prove the absence of market harm is speculative and/or impractical). For example, in *Campbell*, the Court required 2 Live

C. Hachette Book Group, Inc. v. Internet Archive

In light of the preceding analysis, it is hardly surprising that the first case to address CDL led to a ruling in favor of copyright owners. In *Hachette Book Group, Inc. v. Internet Archive*, four of the Big Five book publishers sued IA for scanning print copies of their books and lending the digital copies to users without the publishers' consent.[159] As discussed below, both the district court and the Second Circuit on appeal held that IA's activities created unauthorized reproductions and failed to qualify as fair use. Thus far, *Hachette* is the only case that has squarely addressed fair use in the context of digital library lending.

IA was not a public library in the traditional sense. Unlike most community libraries, it was not funded by a state or local government, and while it possessed physical copies of books, it did not lend those out, engaging exclusively in digital lending. In many respects, however, IA's CDL activities resembled those of traditional libraries.

Crew to prove on remand that their unauthorized adaptation of *Pretty Woman* did not harm the plaintiff's market for rap derivatives of the work. 510 U.S. at 590. It is hard to imagine how this could be accomplished; not surprisingly, the case was settled.

In *Harper & Row*, three courts reached polar opposite conclusions based the same evidence: The district court found an "actual effect" on the market, the Second Circuit rejected this finding as "clearly erroneous," and the Supreme Court found that the evidence of actual damage was "clear-cut." 471 U.S. at 561.

Courts have sometimes attempted to ease the defendant's burden. *See, e.g.,* Authors Guild v. Google, Inc., 804 F3d 202, 223-25 (2d Cir. 2015) (finding market harm unlikely even though defendant presented no evidence); Google Authors Guild, Inc. v. HathiTrust, 755 F.3d 87, 96 (2d Cir. 2014) (requiring the copyright owner to at least "point to the market harm"); Cambridge University Press v. Patton, 769 F.3d 1232, 1279 (11th Cir. 2014) (requiring copyright owner to prove availability of reasonably priced digital licenses even though defendant had the burden of proof); Leibovitz v. Paramount Pictures Corp., 137 F.3d 109, 116 n.6 (2d Cir. 1998) (where plaintiff failed to identify any market that might be harmed, defendant had no obligation to present evidence of lack of harm).

[159] Hachette Book Group, Inc. v. Internet Archive, 664 F.Supp. 3d 370 (S.D.N.Y. 2023).

IA's policy was to lend out one digital copy for each physical copy it possessed, thus maintaining the one-to-one owned-to-loaned ratio that is a key characteristic of CDL. However, IA not only maintained its own physical library of books, but also relied on "contributions" from libraries that possessed print copies. If a contributing library owned a print copy of a book already in IA's stored library, IA increased its number of lendable copies by one. In fact, IA counted only one copy per contributing library, regardless of how many copies that library actually possessed. Therefore, the total number of copies IA considered itself eligible to lend consisted of the hard copies that IA itself held in storage plus one lendable copy for each participating library.[160]

During their 14-day borrowing period, IA's patrons could either read their borrowed books on IA's platform or download an encrypted copy. IA used software to prevent users from copying, accessing, or distributing their borrowed copies after their 14-day loan term expired.[161] IA's policy was not to lend books published within the previous five years.[162]

Unfortunately, IA did not always abide by its stated policies. For several months during the COVID pandemic, IA temporarily departed from its policy of maintaining a one-to-one owned-to-loaned ratio, allowing up to 10,000 patrons to borrow a single book from its website.[163] IA also failed to ensure that its partner libraries always removed one physical copy from circulation during the period when IA was lending a digital copy of that work. In fact, IA and its partner libraries failed to inform one another when books were checked out.[164]

1. District Court

The district court's analysis focused almost entirely on the fair use defense, with good reason. In the aftermath of

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[160] *Id.* at 376.
[161] *Id.* at 376-77.
[162] *Id.* at 376 n.2 (explaining that on the two occasions where such books were lent by mistake, IA removed them promptly upon discovering its error).
[163] *Id.* at 376.
[164] *Id.* at 385-86.

ReDigi, [165] IA did not even attempt to argue that its unauthorized reproduction of copyrighted books fell within the scope of the first sale rule.[166] However, the district court did address the question briefly, reaffirming *ReDigi*'s conclusion that section 109(a) does not authorize reproduction.[167]

In light of the fair use precedents discussed earlier, it is hardly surprising that the district court in *Hachette* found IA's lending program to be "squarely beyond fair use."[168] Applying the four fair use factors, it found that: (1) IA's CDL program was both commercial and non-transformative;[169] (2) both the fiction and non-fiction books at issue were "close to the core" of copyrightable expression;[170] (3) the books had been copied in their entirety;[171] and (4) the CDL program provided market substitutes for the copyrighted works, competing directly with the publishers' own eBook licensing programs, and would harm the publishers' potential market if its use became widespread.[172] The district court's conclusions on the second and third fair use factors were fully consistent with the precedents discussed earlier, and would also weigh against a fair use argument by a traditional public library that engaged in unauthorized digital lending. With respect to the first and fourth factors, however, the district court's analysis merits a closer look.

In the court's view, there was "nothing transformative" about IA's digital copying: it did not provide criticism, commentary, or information about the plaintiff's books, nor did it "add[] something new, with a further purpose or different character, altering the [originals] with new expression, meaning or message."[173] The court distinguished the Second Circuit's fair use findings in *Google Books* and *Hathitrust,* because the

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[165] *See supra* notes 85-99 and accompanying text.
[166] Instead, IA cited the rule's policy goals as support for its fair use argument. *Hachette,* 664 F.Supp. 3d at 380-83.
[167] *Id.* at 384-85.
[168] *Id.* at 381.
[169] *Id.* at 380-84.
[170] *Id.* at 387.
[171] *Id.*
[172] *Id.* at 388.
[173] *Id.* at 380.

defendants in both of those cases digitized books in order to create a searchable database—"a quintessentially transformative use," and also prevented their users from viewing any digitized book in its entirety.[174] The court was on weaker ground, however, when it attempted to distinguish *Sony*—the case in which the Supreme Court held that fair use permitted individuals to engage in wholesale copying of televised content for the purpose of viewing the content at a more convenient time. The *Hachette* court held that *Sony* was distinguishable because, unlike IA, the individuals who copied the works in *Sony* did not distribute their copies to the public.[175]

While this distinction is factually correct, it is irrelevant to the question of whether the timeshifting in *Sony* was transformative in the first place and, if so, whether it was significantly more transformative than IA's activity in sharing temporary digital copies of physical books in its collection. The better answer is that the timeshifting in *Sony* was either minimally or not at all transformative, and that the Court's fair use determination in that case turned on its findings of non-commerciality and the absence of market harm. Therefore, transformativeness is not a strong basis for treating IA's fair use defense as inherently weaker than Sony's. Nonetheless, it was reasonable for the *Hachette* court to conclude that CDL is not a highly transformative use, and this conclusion should apply equally to nonprofit libraries.

Hachette also found that IA's copying was commercial in two respects: (1) it used its website "to attract new members, solicit donations, and bolster its standing in the library community," and (2) whenever an IA user purchased a used book through a vendor's link on IA's website, the vendor compensated IA.[176]

The first of these rationales is dubious. If the fair use concept of "profit" can be satisfied whenever the user's activity is viewed favorably by the public, and attracts public support through donations, this would weigh against any organization, even the most philanthropic of nonprofits, that publicizes the

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[174] *Id.* at 381.
[175] *Id.* at 382-83.
[176] *Id.* at 383.

assistance it provides to the community in order to encourage the community to utilize its services and to encourage donors to provide support for its mission. Even the most favored types of fair uses, such as education (which Congress specifically listed as a favored use under the first factor), frequently engage in these activities. Most of the authorities on which *Hachette* relied for its broad view of "profit" involved activities that were predominantly self-serving, and in some cases involved financial gain. [177] Furthermore, the Supreme Court has recognized that, in addition to education, the other activities that Congress specifically listed as potential fair uses in the text of Section 107 often have commercial aspects.[178]

The district court was on somewhat firmer ground with its second rationale for treating IA's activities as commercial. While simply encouraging users to purchase books, and even providing links to the booksellers, would have been a noncommercial activity—and, indeed, a salutary one both for copyright owners and for the public interest in promoting literacy—by taking a share of the purchase price for itself IA engaged in a commercial activity. On the other hand, interested buyers were not compelled to follow IA's links, because they could have searched for sellers independently. The commercial

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[177] *Id*. All of the appellate cases cited to support this proposition involved predominantly self-serving activities: Society of Holy Transfiguration Monastery v. Gregory, 689 F.3d 29, 61 (1st Cir. 2012) (new monastery profited from posting older monastery's closely-held religious texts "by standing to gain at least some recognition within the Orthodox religious community for providing electronic access" to those texts); Worldwide Church of God v. Philadelphia Church of God, Inc., 227 F.3d 1110, 1118 (9th Cir. 2000) (church used plaintiff's work to attract new members, who tithed ten percent of their income); Weissman v. Freeman, 868 F.2d 1313, 1324 (2d Cir. 1989) (academic used another's work to gain small honorarium and to advance his professional reputation). The one authority that more squarely supports *Hachette*'s approach was an unpublished district court decision, and even here the court was simply refuting the defendant's claim that its activities were categorically fair use simply because they were nonprofit. Penguin Group (USA) Inc. v. American Buddha, 2015 WL 11170727, *4 (D. Ariz. 2015) (noting that defendant made entire books available to the public for free on its website, and also solicited contributions).

[178] Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 584 (1994).

element here was rather minor and should not receive significant weight in the overall fair use analysis. Fortunately, digital lending by traditional public libraries—or even online-only libraries such as IA or QLL—can avoid this commercial element entirely.

With respect to the first factor, IA introduced one additional argument not directly related to commerciality or transformativeness. It argued that even if CDL was not permitted by the first sale rule, it advanced the public policy goals of that rule.[179] However, the district court rejected this argument as an attempt to broaden the scope of section 109(a), a task which it believed should be left to Congress.[180]

In analyzing the fourth factor, the effect on the market for the copyrighted work, the district court noted that publishers had already established a "thriving eBook licensing market for libraries" which IA's CDL services would "usurp" by making it unnecessary for libraries to buy eBook licenses from the copyright owners: "[I]t is patently more desirable to offer IA's bootleg eBooks than to pay for authorized eBook licenses. To state the obvious, '[i]t is difficult to compete with a product offered for free.'"[181]

The district court found that IA had failed to prove the absence of market harm, despite the fact that neither print sales of the books in question nor general demand for library eBooks had declined during IA's CDL program, and that licensed eBook checkouts of the plaintiff's books did not increase after IA removed the books from its offerings.[182] Even though each digital copy that IA loaned corresponded to a lawfully made print copy that a library had purchased, the court found that

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[179] *Hachette*, 664 F.Supp. 3d at 385.

[180] *Id*. The court noted that it would reach the same conclusion even if IA had fully enforced the 1:1 loaned-to-owned ratio, which it had failed to do. *Id.* at 386.

[181] *Id.* at 389 (quoting Sony BMG Music Ent. v. Tenenbaum, 672 F.Supp. 2d 217, 231 (D. Mass. 2009)). The Supreme Court has held that fair use is an affirmative defense, Harper & Row Pubs., Inc., v. Nation Enterprises, 471 U.S. 539, 561 (1985); *Campbell,* 510 U.S. at 590, and therefore the proponent of the defense bears the burden for proving the absence of market harm. *Id.* at 594.

[182] *Hachette*, 664 F.Supp. 3d at 389-90.

the publishers had not received the compensation they deserved from the sale of that print copy, because "[p]ublishers do not price print books with the expectation that they will be distributed in both print and digital formats."[183] Finally, the market harm was not outweighed by the public benefits of making books more accessible to patrons living far from physical libraries and "support[ing] research, scholarship and cultural participation by making books widely accessible on the Internet."[184]

Accordingly, the district court granted the publishers' motion for summary judgment of infringement, holding that they had established a prima facie case of infringement and that fair use did not apply.[185]

The court later entered a consent judgment and permanent injunction preventing IA from reproducing or distributing the publisher's works, subject to a notable exception: The injunction applied only to the works that the publishers offered in digital formats.[186] The court explained that its fair use analysis had considered only those works, and that, in particular, the analysis of the fourth fair use factor might be different for books that the publishers made available only in print formats.[187]

2. Second Circuit

On appeal, the Second Circuit affirmed. Embracing most, though not all, of the district court's fair use analysis, the appellate court concluded that all four fair use factors favored the publishers.

The court started with a precise framing of the issue: "Is it 'fair use' for a nonprofit organization to scan copyright-protected print books in their entirety and distribute those copies online, in full, for free, subject to a one-to-one owned-

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[183] *Id.* at 390.
[184] *Id.*
[185] 664 F. Supp. 3d at 378, 391.
[186] Consent Judgment and Permanent Injunction Subject to Reservation of Right of Appeal, Hachette Book Group, Inc. v. Internet Archive, No. 1:20-cv-04160-JGK-OTW (S.D.N.Y. Aug. 11, 2023), ECF No. 215.
[187] Order, Hachette Book Group, Inc. v. Internet Archive, No. 1:20-cv-04160-JGK (S.D.N.Y. Aug. 11, 2023), ECF No. 216.

to-loaned ratio between its print copies and the digital copies it makes available at any given time, all without authorization from the copyright-holding publishers or authors?"[188] By posing the question in this manner, the court made clear that its holding would apply to the standard CDL practice used by nonprofit libraries, and would not be limited to lenders who exceeded the one-to-one loaned-to-owned ratio, as IA had done during the pandemic.

The appellate court agreed with the district court that IA's use of the publisher's works was not transformative. It described this conclusion as "clear cut," because the digitized books served the same purpose as the originals. They were derivative works, but not transformative ones.[189] Unlike the activities in *Sony* and *TVEyes*, IA's digitization did not create any "efficiencies" superior to those already provided by the publishers' own offerings of eBooks.[190] The one-to-one loaned-to-owned ratio did not alter this conclusion, nor did the ability of authors writing online articles to link directly to the digital books.[191]

However, the Second Circuit rejected the district court's entire analysis of commerciality. Even if IA received a small amount of revenue when users clicked on its link to purchase books from a third party, the connection between that revenue and IA's free lending activities was "too attenuated" to characterize those activities as commercial.[192] The same was true of IA's solicitation of donations: "To hold otherwise would greatly restrain the ability of nonprofits to seek donations while making fair use of copyrighted works."[193] Finally, IA's lending could not be considered commercial even if it enhanced IA's reputation: "Characterizing these general benefits as commercial profits would render commercial the

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[188] Hachette Book Group, Inc. v. Internet Archive, 115 F.4th 163, 174 (2d Cir. 2024).
[189] *Id*. at 181.
[190] *Id.* at 182-83.
[191] *Id.* at 184.
[192] *Id.* at 185-86.
[193] *Id.* at 186.

activities of virtually any nonprofit organization that bolsters its reputation through its own nonprofit activities."[194]

Nonetheless, the noncommercial character of IA's use was not dispositive. Relying on *Warhol*, the Second Circuit held that transformativeness, and not commerciality, was the "central focus" of the first factor, and concluded that this factor favored the publishers. [195]

The second factor – the nature of the works – also favored the publishers. Even though some of the books were nonfiction, they still contained original expression that was "close[] to the core of intended copyright protection."[196]

Because the works were copied in their entirety, the third fair use factor – the amount and substantiality of the portion used – favored the publishers. In contrast to the *Google Books* and *Hathitrust* cases, IA made completely copies of the works available to the public, rather than using them for a transformative purpose such as creating a database where users could search for the location of key words or view short "snippets" of a larger work.[197]

As to the fourth factor, the parties disagreed on whether the relevant "market" for purposes of assessing harm was the market for eBooks or the market for both eBooks and print books.[198] The court concluded, however, that it must consider the markets for books in all formats, since the books were protected by copyright regardless of format, and the publishers held exclusive licenses to publish the books in both print and electronic formats.[199] The Second Circuit's approach therefore departed from that of the district court which, as noted earlier, stated in its final order that its analysis of the fourth factor considered only the impact on books that the publishers made available in digital formats.[200]

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[194] *Id.*
[195] *Id.*
[196] *Id.* at 187 (quoting Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 586 (1994)).
[197] *Id.* at 188-89.
[198] *Id.* at 189.
[199] *Id.* at 189-90.
[200] *See supra* notes 187-88.

Emphasizing the close relationship between the first and fourth fair use factors, the court noted that IA's copies were market substitutes that not only served the same purpose as the publisher's own, but were *intended* to serve that purpose.[201] It drew a sharp contrast to the digital copies in *Google Books* and *Hathitrust*, where the defendants' copies could not serve the same purposes as the publisher's copies, and were never intended to do so.[202]

Like the district court, the Second Circuit found that IA failed to prove a lack of market harm. Even though IA's post-lockdown return to the one-to-one loaned-to-owned ratio actually coincided with a *decrease* in checkouts of the publisher's authorized eBooks, as well as the Amazon sales rankings of their print copies, IA failed to prove causation, especially in light of the "major macroeconomic events" accompanying the pandemic lockdown followed by the reopening of public spaces.[203]

Even though the publishers provided no empirical evidence of their own, the Second Circuit noted that courts "routinely rely on . . . logical inferences where appropriate" in assessing market harm.[204] Noting that "it is difficult to compete with free"),[205] the court concluded that it was "self-evident" that if IA's use of the works became widespread, this would result in market harm.[206]

Turning to the asserted public benefits of IA's free dissemination of the works, the court found that any short-term public benefits were outweighed by the long-term detriments that the public would suffer if IA and others could effectively

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[201] *Hachette*, 115 F.4th at 190.

[202] *Id.*

[203] *Id.* at 191-92. The court added that the Amazon rankings did not include eBook sales and questioned the rankings' accuracy as well. *Id.*

[204] *Id.* at 193 (citing Authors Guild v. Google, Inc., 804 F.3d 202, 223-25 (2d Cir. 2015); Capitol Records, Inc. v. ReDigi LLC, 910 F.3d 649, 662-63 (2d Cir. 2018); Andy Warhol Foundation for Visual Arts, Inc. v. Goldsmith, 11 F. 4th 26, 50 (2d Cir. 2021)).

[205] *Id.* at 190.

[206] *Id.* at 193; *see also id.* at 195 (describing this conclusion as "reasonable and logical").

eliminate the financial rewards that motivate creative activity.[207]

Accordingly, IA's fair use defense failed as a matter of law.[208] Any "minor functional benefits" offered by IA's lending practice were "overwhelmingly outweighed by the other fair use considerations."[209]

3. *Hachette*'s Relevance for Traditional Libraries

With publishers ready, willing, and able to meet the public demand for eBooks, and even providing platforms such as Overdrive that enable libraries to engage in digital lending, albeit at a steep price, there is little doubt that unauthorized digital lending can have at least some impact on the publishers' market. For fair use purposes, the key question is the severity of that impact, and whether it is outweighed by the public benefits.

There is a speculative element to the both the district and appellate courts' conclusions in *Hachette* that the public benefits of CDL do not outweigh the market harm, since both courts relied simply on logical inference to refute IA's empirical data. Neither court attempted to quantify the benefits and harm.

There is not necessarily a 1:1 relationship between unauthorized book loans and loans that would otherwise have been made pursuant to a license. A library could not necessarily afford to purchase a license for a particular eBook even if it were barred from engaging in unauthorized lending of that book; indeed, as discussed earlier, the prohibitive prices and terms of library eBook licenses are the sole motivation for the libraries' activities. And if a particular borrower could not borrow a digital copy of the book from IA, that borrower might have simply borrowed a hard copy instead, by visiting a brick-and-mortar library, in a transaction that would have generated

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[207] *Id.* at 195-96.
[208] *Id.* at 196.
[209] *Id*.

no revenues at all for the copyright owner.[210] A library patron who lacks the ability to visit a brick-and-mortar library (or its mobile equivalent, in the case of bookmobiles), could perhaps buy the book online, but a patron of modest means probably does not view book purchases as a feasible substitute for library borrowing.

If digital lending and hard copy lending are viewed as market substitutes, then, it can be argued that digital lending has little or no impact on the copyright owner's market. Thus, it is possible that a future court could strike a different balance between the public benefits and the market harm arising from unauthorized digital lending.

With respect to fair use, nonprofit libraries engaged in CDL activities are in only a slightly stronger position than IA. They are copying works that are close to the core of copyright protection, and copying them in their entirety. While their activities should be viewed as noncommercial, they are also not transformative. The question of market harm presents the greatest analytical difficulty. CDL serves the same purpose as licensed eBook lending, and thus arguably offers a market substitute for licensed versions of the copyrighted work. The extent to which this substitution actually harms the copyright owner's market, however, is a more challenging question, because it depends on whether, in the absence of CDL, borrowers would have purchased the books or borrowed digital versions (versus hard copies) from libraries that owned the necessary licenses.

While the district court in *Hachette* deliberately left print copies out of its analysis of the fourth factor, the Second Circuit deliberately included them. Arguably a court should not even

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[210] A similar argument has been raised to critique the Ninth Circuit's assumption, in *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001), that unauthorized music file-sharing displaced authorized record sales: "This assumption overlooks the possibility that users could have traded with one another in other ways, or that users were only downloading music that they didn't care enough to purchase in the first place (for instance, a memorable song from the past – downloaded as . . . a reminiscence and then quickly deleted)." Jessica Hu, Charlene Leus, Barbara Tchobanian & Long T. Tran, *Copyright vs. Napster: The File Sharing Revolution*, 2 U.C. IRVINE L.F.J. 53, 63 (2004).

consider whether CDL inflicts market harm on *print* sales, at least in cases where libraries observe the one-to-one owned-to-loaned ratio. If a library takes one print copy out of circulation each time it lends a scanned version of the book, then every loan of an unauthorized digital copy is equivalent to a loan of the physical copy that is sitting on the library's shelves. Because the first sale rule specifically condones any potential market harm that print sales might suffer when libraries lend print copies,[211] such harm should also be ignored when the loaned format is digital rather than physical. Despite the Second Circuit's concern that it is difficult to "compete with free," Congress sometimes requires publishers to do so. Although it may be objected that digital copies outlast print copies, in the case of library books that are currently on the shelves this may not be empirically true. Print copies can last a long time, and digital files may expire due to technological obsolescence and/or file corruption. Of course, publishers have the power to shorten the lives of print copies by using lower-quality materials and manufacturing, and they can also – as some reportedly have – stop producing print copies altogether.[212]

Despite the flaws in the Second Circuit's analysis, the fact-specific nature of the fair use analysis and the high cost of litigating it—especially if cases must be pursued in multiple jurisdictions—make it unlikely that nonprofit digital lenders will be able successfully to assert their rights on a nationwide basis. Libraries will incur significant expense in asserting fair use, with potentially inconsistent results in different jurisdictions. In addition, most nonprofit libraries are subject to oversight and budget control by government or educational authorities that are unlikely to have an appetite for this degree of risk or expense. IA decided against seeking review by the Supreme Court.[213] Therefore, while a complete victory remains a theoretical possibility in future cases, in all likelihood fair use will be, at best, an uphill battle for the libraries.

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[211] *See supra* notes 163-167 and accompanying text.

[212] Kahle, *supra* note 39.

[213] Chris Freeland, *End of Hachette v. Internet Archive*, Internet Archive Blogs (Dec. 4, 2024), https://blog.archive.org/2024/12/04/end-of-hachette-v-internet-archive/ [https://perma.cc/WQF5-R7TE].

III. State Legislation and Federal Preemption

A. Early Efforts

In response to the problems that eBook licenses have created for public libraries, a number of states have considered, or are currently considering, legislation that would regulate the terms on which publishers can offer eBook licenses to libraries.[214] Thus far, these efforts have seen little success. The New York legislature passed the first such law in 2021,[215] only to have it vetoed by the governor based on opposition from the publishing industry. [216] Virginia's bill was rejected in committee. [217] Similar bills have been proposed, without success, in other states, [218] including Connecticut, [219]

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[214] Dewey, *supra* note 5.

[215] A5837B, 2021 State Assem., Reg. Sess. (N.Y. 2021) (passed in June 2021 but never signed into law).

[216] Dewey, *supra* note 5; Moore, *supra* note 4; Jim Milliot, *AAP Sues to Block Maryland, New York Library E-Book Laws,* PUBLISHERS WEEKLY (Dec. 9, 2021), https://www.publishersweekly.com/pw/by-topic/industry-news/libraries/article/88092-aap-sues-to-block-maryland-new-york-library-e-book-laws.html [https://perma.cc/8L9D-4GTY].

[217] *See* Shelley H. Husband, *AAP Statement of Opposition to HB6800* (Mar. 8, 2023), https://www.cga.ct.gov/2023/PDdata/Tmy/2023HB-06800-R000310-Husband,%20Shelley,%20SVP-Government%20Affairs-Ass-Opposes-TMY.PDF [https://perma.cc/7L2N-DN2Q].

[218] eBook Study Group, *Get the Facts about Model eBook Legislation*, https://www.eBookstudygroup.org/questions_misconceptions; Marci Wicker, *The eBook Study Group: A New Way to Fight for Libraries* (July 11, 2023), https://newsbreaks.infotoday.com/NewsBreaks/The-eBook-Study-Group-A-New-Way-to-Fight-for-Libraries-159540.asp [https://perma.cc/UF2P-3L29].

[219] H.B. 6800, Gen. Assemb., Jan. Sess. (Conn. 2023) (referred to committee Apr. 4, 2023).

Massachusetts, [220] Hawaii, [221] Rhode Island, [222] Illinois, [223] Tennessee,[224] and Missouri.[225]

So far, only Maryland has succeeded in enacting its legislation.[226] As discussed below, however, that success was short-lived. The law was promptly challenged and enjoined on the grounds of federal preemption.

The purpose of Maryland's statute was two-fold: (1) to require publishers to offer digital licenses to public libraries, and (2) to ensure that the terms of those licenses would be fair.[227] The statute stated, in pertinent part:

> [A] publisher who offers to license an electronic literary product to the public shall offer to license the electronic literary product to public libraries in the State on reasonable terms that would

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[220] S.B. 2188, 193d Gen. Court. (Mass. 2023) (referred to committee Feb. 16, 2023); H.B. 3239, 193d Gen. Court. (Mass. 2023) (referred to committee Feb. 16, 2023).

[221] H.B. 1412, 32d. Leg., Gen. Sess. (Haw. 2023) (referred to committee Apr. 25, 2023).

[222] S.B. 498, 2023 Gen. Assemb., Jan. Sess. (R.I. 2023) (recommended for further study May 31, 2023); H.B. 5148, 2023 Gen. Assemb., Jan. Sess. (R.I. 2023) (recommended for further study Mar. 2, 2023).

[223] H.B. 4470, 102d Gen. Assemb. (Ill. 2022) (referred to Rules Committee Mar. 4, 2022); S.B. 3167, 102d Gen. Assemb. (Ill. 2022) (referred to committee Jan. 12, 2022).

[224] S.B. 1955, 112th Gen. Assemb. (Tenn. 2022) (referred to committee Jan. 31, 2022) and H.B. 1996, 112th Gen. Assemb. (Tenn. 2022) (taken off notice for calendar in committee Feb. 9, 2022).

[225] S.B. 1095, 101st Gen. Assemb., 2022 Reg. Sess. (Mo. 2022) (referred to committee Mar. 7, 2022); H.B. 2210, 101st Gen. Assemb., 2022 Reg. Sess. (Mo. 2022) (referred to committee Jan. 13, 2022).

[226] S.B. 432, 2021 Gen. Assembly, 442d. Sess. (Md. 2021).

[227] Association of American Publishers, Inc. v. Frosh, 586 F.Supp.3d 379, 384 (D. Md. 2022) (citing S.B. 432, 2021 Gen. Assembly, 442d. Sess. (Md. 2021), 2021 Md. Laws Ch. 412; H.B. 518, 2021 Gen. Assembly, 442d Sess. (Md. 2021), 2021 Md. Laws Ch. 411).

> enable public libraries to provide library users with access to the electronic literary product.[228]

However, the statute did not define "reasonable terms," and it specifically permitted publishers to impose certain licensing conditions, including:

> (1) A limit on the number of users a public library could simultaneously allow to access an electronic literary product;
>
> (2) A limit on the number of days a public library could allow a user to access an electronic literary product; and
>
> (3) The use of technological protection measures that would prevent a user from:
>
> > (i) Maintaining access to an electronic literary product beyond the access period specified in the license; and
> >
> > (ii) Allowing other users to access an electronic literary product.[229]

The only condition specifically identified as *not* permissible was "a limitation on the number of electronic literary product licenses a public library may purchase on the same date the electronic literary product license is made available to the public."[230] This would have enabled a public library to purchase as many licenses as it wanted for any given work. The statute treated noncompliance as an "unfair, abusive or deceptive trade practice,"[231] subjecting the publisher to civil and possibly

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[228] MD. CODE ANN., EDUC. § 23-702(c). The statute defined an "electronic literary product" as either "(1) [a] text document that has been converted into or published in a digital format that is read on a computer, tablet, smart phone, or other electronic device; or (2) [a]n audio recording of a text document, read out loud in a format that is listened to on a computer, tablet, smart phone, or other electronic device." *Id.* § 23-702(b).

[229] *Id.*

[230] *Id.* § 23-702(c).

[231] *Id.* § 23-702(d).

criminal penalties under the state's consumer protection statute.[232]

Maryland's legislation took effect on January 1, 2022,[233] but just a few months later a federal district court granted a preliminary injunction barring its enforcement, followed by a declaratory judgment that the law was unconstitutional, on the ground that it was preempted by federal copyright law.[234]

A state law can be preempted by federal copyright law in any of three ways.[235] First, *express* (or statutory) *preemption* applies if a state law creates rights equivalent to any of the exclusive rights within the general scope of section 106 with respect to works that come within the subject matter of federal copyright law.[236] Second, *conflict preemption* applies if a state law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress,"[237] or if compliance with both federal and state regulations is impossible.[238] And third, *field preemption* applies if a state law regulates subject matter with respect to which Congress

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[232] *Frosh,* 586 F.Supp.3d at 389 (citing MARYLAND CODE ANN., COM. LAW § 13-401 *et seq*.)

[233] MD. CODE ANN., EDUC. §§ 23-701, 23-702.

[234] The court granted a preliminary injunction barring enforcement in February of 2022, Association of American Publishers v. Frosh, 586 F. Supp. 3d 379 (D. Md. 2022), followed by a declaratory judgment holding the statute unconstitutional on preemption grounds. Association of American Publishers v. Frosh, 607 F.Supp.3d 614 (D.Md. 2022). In addition to preemption, the complaint also asserted violations of the Dormant Commerce Clause and the Due Process Clauses of the Fifth and Fourteenth Amendments. Association of American Publishers v. Frosh, 586 F.Supp.3d 379, 387 (D. Md. 2022). Because the court issued a preliminary injunction on preemption grounds, it did not reach the other issues. *Id.*

[235] For a comparison of these types of preemption as applied to copyright contracts, *see* Guy A. Rub, *Moving from Express Preemption to Conflict Preemption in Scrutinizing Contracts over Copyrighted Goods,* 56 AKRON L. REV. 303, 318-20 (2022).

[236] 17 U.S.C. §301(a); Orson, Inc. v. Miramax Film Corp., 189 F.3d 377, 381-82 (3d Cir. 1999).

[237] Arizona v. United States, 567 U.S. 387, 399 (2012); *Miramax*, 189 F.3d at 381-82.

[238] *Arizona,* 567 U.S. at 399; *Miramax,* 189 F.3d at 381-82.

intends federal law to "occupy the field."[239] The three categories of preemption are not always distinct.[240]

In the Maryland case, *Association of American Publishers, Inc. v. Frosh*,[241] the federal district court applied conflict preemption, concluding that the statute stood "as an obstacle to the accomplishment of the purposes and objectives of the Copyright Act."[242] Under the statute, any publisher that offered to license an "electronic literary product" to the public was also required to offer licenses for that product to Maryland's public libraries, and those licenses were required to comply with the statute's requirements.[243] The statute did not define "the public," and therefore, on its face, appeared to apply whenever a publisher offered to license a work to

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[239] Crosby v. Nat'l Foreign Trade Council, 530 U.S. 363, 372 (2000); Cipollone v. Liggett Group, Inc., 505 U.S. 504, 516 (1992); Goldstein v. California, 412 U.S. 546, 570 (1973).

[240] English v. General Elec. Co., 496 U.S. 72, 79 n.5 (1990) (noting that the three categories are not "rigidly distinct," and that field preemption may be considered a species of conflict preemption); *accord*, Orson, Inc. v. Miramax Film Corp., 189 F.3d 377, 382 (3rd Cir. 1999) (noting that the categories "are not necessarily airtight."). For example, a California resale royalty law that granted artists a financial interest in every resale of their artwork was held to be preempted by federal copyright law; however, the district court and the Ninth Circuit disagreed as to which type of preemption applied. Estate of Graham v. Sotheby's, Inc., 178 F.Supp.3d 974, 988, 991 (C.D. Cal. 2016) (holding that both express and confliction preemption applied), *aff'd,* Close v. Sotheby's, Inc., 894 F.3d 1061, 1072, 1074 (9th Cir. 2018) (holding that only express preemption applied). In Storer Cable Comm'ns v. City of Montgomery, 806 F.Supp.1518, 1533-34 (M.D. Ala. 1992), the court held that a state law treating exclusive licenses by cable companies as presumptively illegal was preempted but found it "difficult" to decide between express or conflict preemption.

[241] 586 F.Supp.3d 379 (D. Md. 2022).

[242] Association of American Publishers v. Frosh, 607 F. Supp. 3d 614, 618 (D. Md. 2022) (citing *Arizona*, 567 U.S. at 399-400; United States v. South Carolina, 720 F.3d 518, 529 (4th Cir. 2013)). Initially, the district court granted a preliminary injunction on preemption grounds. *Frosh*, 586 F.Supp.3d at 398. Because the state then announced that it would not enforce the statute, the court subsequently granted a declaratory judgment in the publishers' favor, rather than converting the preliminary injunction into a permanent one. *Frosh,* 607 F.Supp.3d at 618-19.

[243] MD. CODE ANN., EDUC. § 23-702(a).

members of the public anywhere in the world.[244] The statute therefore forced publishers to choose: Either forego licensing a work to the public altogether, or license that work to Maryland's public libraries, and do so on terms satisfactory to the state.[245] Thus, any publisher that wanted to license a work anywhere was compelled to allow Maryland's public libraries to exploit that work, under terms that were not entirely negotiable. In effect, Maryland created a compulsory licensing scheme, and the only way for a literary publisher to avoid it was to stop licensing its electronic products altogether. [246]

Because the Maryland law compelled publishers to grant electronic licenses to libraries, the court concluded that it interfered with the copyright owners' exclusive distribution right, "a right that necessarily includes the right to decide whether, when, and to whom to distribute" their works.[247] By forcing the publishers to distribute their works to libraries, the law stood "as an obstacle to the accomplishment of the objectives of the Copyright Act."[248]

There is ample precedent to support the analysis in *Frosh.* The Supreme Court has consistently recognized a copyright owner's right to refuse to license a work. In the 1932 case of *Fox Film Corp. v. Doyal,* the Court stated that a copyright owner "may refrain from vending or licensing and content himself with simply exercising the right to exclude others from

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[244] While the court did not expressly construe this language, it implicitly interpreted "the public" broadly: "The Act's 'offer to license' requirement is triggered when a publisher offers to license the product 'to the public'—an act publishers do online every day through various websites and apps." *Frosh*, 586 F.Supp.3d at 389.

[245] *Id.*

[246] A compulsory license compels the copyright owner to license a work under specific circumstances and dictates the terms of such a license. Federal copyright law includes several compulsory licenses. *See.*, *e.g.*, 17 U.S.C. §115 (mechanical compulsory license).

[247] *Frosh*, 586 F.Supp.3d at 389, 390 n.3 (citing Stewart v. Abend, 495 U.S. 207, 220 (1990); Fox Film Corp. v. Doyal, 286 U.S. 123, 127 (1932). In addition, the law compelled the publishers to grant libraries as many licenses as they wanted. *Frosh*, 586 F.Supp.3d at 389.

[248] 586 F.Supp.3d at 393.

using his property."[249] Many years later, in *Stewart v. Abend,* the Court reaffirmed this right, observing:

> [A]lthough dissemination of creative works is a goal of the Copyright Act, the Act creates a balance between the artist's right to control the work during the term of the copyright protection and the public's need for access to creative works. . . . [N]othing in the copyright statutes would prevent an author from hoarding all of his works during the term of the copyright. In fact, this Court has held that a copyright owner has the capacity arbitrarily to refuse to license one who seeks to exploit the work.[250]

Pursuant to this principle, federal courts have consistently held that laws mandating the licensing of copyrighted content to particular parties are preempted. For example, preemption applied to a city ordinance requiring cable programming providers to license their programs to additional entities,[251] and to a state law requiring film distributors to license additional exhibitors after the first 42 days of exclusive first run licensing.[252] And in a series of preemption cases, standardized testing organizations challenged a New York statute that required them to provide the state with copies of their tests and answers after the tests had been administered.[253] Those testing materials thereby became public records subject to public disclosure, which could lead to unauthorized reproduction and

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[249] *Fox Film Corp.,* 286 U.S. at 127.

[250] *Stewart*, 495 U.S. at 228-29 (citing *Doyal*).

[251] Storer Cable Comm'ns v. City of Montgomery, 806 F.Supp. 1518, 1534 (M.D. Ala. 1992) (finding law preempted under either § 301 or conflict preemption).

[252] Orson, Inc. v. Miramax Film Corp.,189 F.3d 377 (3d Cir. 1999) (holding that law interfered with copyright owner's exclusive right to publicly perform and distribute the work).

[253] Association of American Medical Colleges v. Cuomo, 928 F.2d 519 (2d Cir. 1991); College Entrance Examination Board v. Pataki, 889 F. Supp. 554 (N.D.N.Y. 1995); College Entrance Examination Board v. Cuomo, 788 F.Supp. 134 (N.D.N.Y. 1992); Association of American Medical Colleges v. Carey, 482 F.Supp. 1358 (N.D.N.Y. 1980).

distribution.[254] The testing organizations argued that the law gave rise to "forced publication," and therefore conflicted with their exclusive distribution rights.[255] In each case, the courts held that federal copyright law preempted the New York statute unless the state-facilitated publication of the materials constituted fair use, which would eliminate the conflict between state and federal law.[256]

These precedents make clear that a publisher cannot be compelled to license its content to a library. The Maryland statute ran afoul of this rule by requiring publishers to license their eBooks and audiobooks to libraries. As a result of these preemption concerns, state legislation that requires copyright owners to grant electronic licenses to libraries, such as the Maryland statute that was struck down in *Frosh,* has stalled.

B. Model Law

In contrast, a more recent group of digital lending bills—in Massachusetts,[257] Connecticut,[258] and Hawaii[259]—have adopted a new approach based on a model law[260] (hereinafter the "Model Law") that was developed by a nonprofit organization, Library Futures.[261] The Model Law is intended to avoid federal preemption while still enabling nonprofit libraries to disseminate electronic literary materials to the same extent

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[254] *Pataki,* 889 F.Supp. at 564.
[255] *Id.*
[256] *Id.*; *Cuomo,* 928 F.2d at 526.
[257] S.B. 2188, supra note 220; H.B. 3239, supra note 220.
[258] H.B. 6800, supra note 219.
[259] H.B. 1412, supra note 221.
[260] The drafter of the model statute is Kyle K. Courtney, a lawyer and librarian who co-founded Library Futures. eBook Study Group, *Get the Facts About Model eBook Legislation*, https://www.eBookstudygroup.org/questions_misconceptions.
[261] Andrew Albanese & Jim Milliot, *With New Model Language, Library E-book Bills are Back*, PUBLISHERS WEEKLY (Feb. 23, 2023), https://www.publishersweekly.com/pw/by-topic/industry-news/libraries/article/91581-with-new-model-language-library-e-book-bills-are-back.html [https://perma.cc/N9B9-JUFV]. Library Futures is a project of New York University's Engelberg Center on Innovation Law & Policy. eBook Study Group, *Get the Facts About Model eBook Legislation*, https://www.eBookstudygroup.org/questions_misconceptions.

that they have traditionally disseminated physical books.[262] Unlike the Maryland statute in *Frosh*, the Model Law does not compel publishers to grant digital licenses to libraries. Instead, it allows publishers to choose whether to grant such licenses, but it regulates the *terms* of any such negotiated licenses. Specifically, it renders unenforceable any contractual provisions that: (a) impede libraries from licensing electronic literary materials, lending them to borrowers or through interlibrary loan systems (using technological protection measures), making preservation copies, or reciting text and displaying artwork to virtual library patrons;[263] or (b) restrict the number of licenses a library may obtain, require the library to pay a licensing fee greater than the fee charged to the public for the same item, restrict the loan period or the number of times the library may lend the work during the license period, restrict the library from disclosing the terms of its license agreements to other libraries, or require the library to violate state privacy law.[264]

These rules are unwaivable,[265] and violations constitute "unfair and deceptive acts" under the pertinent state law.[266] Actions for relief may be brought by libraries, borrowers, or a

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[262] "A contract shall contain no provision that . . . precludes, limits, or restricts the library from performing their core missions[.]" Library Futures, Draft eBook Legislation [hereinafter "Model Law"], https://www.libraryfutures.net/draft-eBook-legislation [https://perma.cc/9GT7-XB56].

[263] *Id.,* Sec. 3(a)(1).

[264] *Id.*, Sec. 3(a)(2)-(8). The Model Law also contemplates several variations, which would permit certain reasonable restrictions on license duration or on the number of times a library may lend a work. *Id.*, Sec. 3(a), notes 3-6. While Library Futures presents these variations as optional, *id.*, they are essential to crafting a statute that would be fair to publishers. Just as physical copies of books eventually wear out over time, so that libraries must eventually acquire replacement copies, it is reasonable for publishers to refuse to grant licenses allowing unlimited and perpetual lending of a single digital copy.

[265] *Id.* Sec. 2(b).

[266] *Id.* Sec. 4(a).

state Attorney General.[267] Remedies include injunctions and damages.[268]

The Model Law also contemplates several variations, which would permit publishers to impose limited restrictions on license duration or on the number of times a library may lend a work.[269] While Library Futures presents these variations as optional,[270] they are essential to crafting a statute that would be fair to publishers. Physical copies of books eventually wear out, requiring libraries to acquire replacement copies, so it is reasonable for publishers to refuse to grant licenses allowing unlimited and perpetual lending of a single digital copy.

According to the eBook Study Group, a nonprofit advocacy organization that has endorsed the Model Law, the law will avoid federal preemption because it does not "mandate contracts between publishers and libraries" and does not "force publishers to sell to libraries." [271] Instead, the law establishes some of the terms on which publishers may voluntarily transact business with libraries located within the state.[272]

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[267] *Id.* Sec. 4(c).

[268] *Id*. Sec. 4(d).

[269] For example, publishers could restrict libraries to fewer than 70 loans of an eBook and fewer than 100 loans of a digital audiobook and could restrict license duration to less than five years. Alternatively, the library could be restricted to maximum number of loans or a maximum license term, whichever comes first. *Id.* Sec. 3(a)(5), notes 3-5.

[270] *Id.*

[271] eBook Study Group, *Solving the eBook Problem State by State*, https://www.eBookstudygroup.org/solving_problem_state_by_state.

[272] eBook Study Group, *Get the Facts about Model eBook Legislation*, https://www.eBookstudygroup.org/questions_misconceptions. The eBook Study Group compares the Model Law to state net neutrality laws that govern internet service providers that seek to do business in the state: "Under those laws, if the internet service providers want to do business in the state, they have to comply with the net neutrality principles adopted under that state's law." *Id.* Such laws have been enacted in California, Colorado, Maine, New Jersey, Oregon, Vermont, and Washington, and six states have adopted executive orders imposing net neutrality on ISPs that do business with the state: Hawaii, Montana, New Jersey, New York, Rhode Island, and Vermont. *See* Emily Washburn, *What Is Net Neutrality – And*

The Model Law thus requires a different preemption analysis. If a publisher must be free to *refuse* a license, does it follow that the publisher must also be free to dictate the *terms* of such a license, without being subject to any legal constraints? As discussed below, with respect to federal law, the answer is no; it is well settled that federal law can restrict the terms of copyright licenses. However, with respect to state law, the answer is not so clear.

Federal law imposes a number of constraints on copyright licenses. The copyright law itself imposes many of those constraints. For example, the copyright statutes include a number of compulsory licenses that override the copyright owner's right to refuse a license, and also regulate the terms of those licenses, like the maximum royalty. Examples include the compulsory mechanical license for musical works, [273] the statutory license for noninteractive streaming of sound recordings, [274] and the cable [275] and satellite compulsory

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Why Is It So Controversial?, FORBES (Apr. 13, 2023), https://www.forbes.com/sites/emilywashburn/2023/04/13/what-is-net-neutrality-and-why-is-it-so-controversial/?sh=22d18ead53a9 [https://perma.cc/W84E-QSSC]; *Net Neutrality Responses by State,* Ballotpedia; *Net Neutrality: What You Need to Know Now,* FREE PRESS, https://www.freepress.net/issues/free-open-internet/net-neutrality/net-neutrality-what-you-need-know-now [https://perma.cc/22BN-WPDF]; CONG. RSCH. SERV., REP. R46973, NET NEUTRALITY LAW: AN OVERVIEW 21 (Oct. 18. 2022). California's net neutrality law survived a preemption challenge in ACA Connects v. Bonta, 24 F.4th 1233 (9th Cir. 2022); *see* CHRIS D. LINEBAUGH & ERIC N. HOLMES, CONG. RSCH. SERV., R46736, STEPPING IN: THE FCC'S AUTHORITY TO PREEMPT STATE LAWS UNDER THE COMMUNICATIONS ACT (Sept. 20, 2021); *see also* CHRIS D. LINEBAUGH, CONG. RSCH. SERV., LSB10693, ACA CONNECTS V. BONTA: NINTH CIRCUIT UPHOLDS CALIFORNIA'S NET NEUTRALITY LAW IN PREEMPTION CHALLENGE (Feb. 2, 2022). However, because the preemption analysis that governs state net neutrality laws depends on the scope of a particular federal agency's regulatory authority, *see* ACA Connects, 24 F.4th at 1240-41; Mozilla Corp. v. FCC, 940 F.3d 1, 74-76 (D.C. Cir. 2019), it is significantly different from the preemption analysis that determines whether state laws regulating copyright licenses interfere with the congressional objectives underlying federal copyright law.

[273] 17 U.S.C. § 115.

[274] *Id.* § 114(f).

[275] *Id.* § 111(c).

licenses.[276] And, of course, the copyright statutes include many other exceptions to the copyright owner's exclusive rights,[277] including fair use.[278] In addition, under the judge-made doctrine of copyright misuse, license provisions deemed anticompetitive can render a copyright unenforceable.[279]

Outside of copyright, other federal legal regimes may limit the terms of a copyright license. For example, federal antitrust law precludes licenses that involve tying arrangements,[280] price-fixing,[281] and other anticompetitive license provisions.[282]

These examples, however, involve *federal* laws. These are not subject to copyright preemption[283] because they occupy the

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[276] *Id.* § 119.

[277] *See id.* §§ 107-121.

[278] *Id.* § 107.

[279] *See*, *e.g.*, Practice Management Information Corp. v. American Medical Ass'n, 121 F.3d 516, 520 (9th Cir. 1997); Lasercomb America, Inc. v. Reynolds, 911 F.2d 970, 979-80 (4th Cir. 1990); *see also* Margaret Chon, *Copyright's Common Law and Libraries,* 72 J. COPYRIGHT SOC'Y (forthcoming 2025) (applying copyright misuse analysis to library eBook licensing).

[280] United States v. Paramount Pictures, 334 U.S. 131, 159 (1948); *cf.* Cardinal Films v. Republic Pictures Corp., 148 F.Supp. 156, 158-59 (S.D.N.Y. 1957) (finding that provisions in film distribution license did not constitute tying arrangement).

[281] *Paramount Pictures*, 334 U.S. at 144.

[282] *E.g.,* Interstate Circuit v. U.S., 306 U.S. 208, 228-32 (1939). In the analogous field of federal patent law, the Supreme Court has consistently held that a licensor of intellectual property may not require a licensee to continue paying royalties after the limited term of protection has expired. Kimble v. Marvel Entertainment, LLC, 576 U.S. 446 (2015); Brulotte v. Thys Co., 379 U.S. 29 (1964).

[283] However, in what has been called a "quasi-preemption" analysis, the Supreme Court in Dastar Corp. v. Twentieth Century Fox Film Corp., 539 U.S. 23 (2003), rejected an attempt to apply the federal unfair competition provision of the Lanham Act, 15 U.S.C. § 1125(a), to enforce attribution rights in a work whose copyright had expired. In the Court's view, this expansive interpretation of the Lanham Act would create "a species of mutant copyright law that limits the public's 'federal right "to copy and to use"' expired copyrights" with no indication that Congress intended such a result. *Dastar,* 539 U.S. at 34; *see also* Jane C. Ginsburg, *Of Mutant Copyrights, Mangled Trademarks, and Barbie's Beneficence: The Influence of Copyright on Trademark Law,* in TRADEMARK LAW AND THEORY: A HANDBOOK OF CONTEMPORARY RESEARCH (Graeme B. Dinwoodie & Mark D. Janis, eds., 2008).

same level of constitutional supremacy as federal copyright law.[284] But, where *state* laws restrict the terms of a copyright license, the answer is less clear.

In its 1941 decision in *Watson v. Buck*, the Supreme Court addressed a Florida antitrust statute that was specifically directed at music copyright owners seeking collective enforcement of their exclusive public performance rights—in this case, through the blanket licensing mechanism of the American Society of Composers, Authors and Publishers (ASCAP). [285] The Florida statute treated these concerted activities as illegal and in restraint of trade.[286]

The Supreme Court held that the Florida statute did not "contravene the copyright laws of the federal Constitution:"[287]

> [U]nless constitutionally valid federal legislation has granted to individual copyright owners the right to combine, the state's power validly to prohibit the proscribed combinations cannot be held non-existent merely because such individuals can preserve their property rights better in combination than they can as individuals. We find nothing in the copyright laws which purports to grant to copyright owners

[284] Conflict preemption is based on the Supremacy Clause in Article VI of the Constitution, which provides that the Constitution, federal laws, and treaties, "shall be the supreme law of the land . . . [the] laws of any State to the contrary notwithstanding." U.S. CONST. art. VI, cl. 2.

[285] Watson v. Buck, 313 U.S. 387 (1941) (concerning a blanket license, which permits the licensee to engage in, or host, nondramatic public performances of any musical composition that is included in the PRO's repertoire). In a companion case decided on the same day, the Court applied the identical analysis to uphold a similar statute in Nebraska. Marsh v. Buck, 313 U.S. 406 (1941). Eventually, as legislators in multiple states came to understand that blanket licensing was essential to enabling music copyright owners to enforce their rights, they repealed their anti-ASCAP statutes. Robert Israel Goodman, *Music Copyright Associations and the Antitrust Laws* 25 IND. L. J. 168, 173-76 (1960).

[286] *Id.* at 394.

[287] *Id.* at 405.

> the privilege of combining in violation of otherwise valid state or federal laws.[288]

This reasoning, however, fell short of a full federal preemption analysis. By looking only at whether Congress had *expressly* granted copyright owners the right to combine, the Court did not consider whether a state law prohibiting such combinations served as an obstacle to the purposes of federal copyright law—a fundamental question in the conflict preemption analysis. Yet the Court had recognized the concept of conflict preemption in prior cases,[289] and had applied it in an opinion issued just four months before the *Watson* decision.[290] Neither of those cases, however, involved copyright law.

Notably, the *Watson* Court acknowledged that a 1941 federal antitrust consent decree had recently established, as a matter of federal law, the parameters within which ASCAP could operate its collective licensing activities nationwide.[291] However, the Court stated that the decree had "no bearing" on its analysis of the Florida statute: "In matters relating to purely intrastate transactions, the state may pass valid regulations to prohibit restraint of trade even if the federal government had no law whatever with reference to similar matters involving interstate transactions."[292]

During the 1980s, most federal courts applied principles consistent with *Watson* to reject claims that federal copyright law preempted state laws regulating competition. The Sixth and Third Circuits consistently rejected conflict preemption challenges to state statutes that imposed restrictions on film licenses. For example, in *Allied Artists Pictures Corp. v. Rhodes,* an Ohio statute regulated film distribution licenses by (1) prohibiting the practice of blind bidding, in which film exhibitors were compelled to decide whether purchase licenses

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[288] *Id.* at 403-04.

[289] *See*, *e.g.*, Savage v. Jones, 225 U.S. 501, 529, 533 (1912) (state law requiring disclosure of commercial feed ingredients did not conflict with federal food and drugs law; collecting earlier cases).

[290] Hines v. Davidowitz, 312 U.S. 52, 67 (1941) (state immigration law preempted by federal law).

[291] *Watson,* 313 U.S. at 403 n.6.

[292] *Id.*

without having had the opportunity to screen the film, (2) requiring open bidding, (3) requiring rebidding if the initial bidding round was unsuccessful, and (4) restricting the use of licensing provisions requiring exhibitors to pay advances or guarantees to distributors.[293] These restrictions did not compel the copyright owners to license their works. Rather, they interfered with the copyright owners' ability to market their copyrights *in the most profitable manner*.

In upholding the state law against a preemption challenge, the Sixth Circuit agreed with the district court's decision rejecting the argument that a "copyright confers on its owner the right to dispose of its subject matter on the optimum terms and that the fundamental purpose of the copyright laws is to reward the owner"[294] and noting that the Supreme Court had previously upheld the application of both federal and state competition laws to copyright owners.[295]

The Sixth Circuit's analysis in *Allied Artists* later provided the foundation for the Third Circuit's analysis of an even more restrictive law in Pennsylvania. In addition to all the restrictions imposed by the Ohio law, the Pennsylvania statute also prohibited exclusive runs of more than forty-two days.[296] In 1982 and 1986, two different Third Circuit panels adopted the Sixth Circuit's reasoning to reject the preemption claims. However, the author of the 1986 opinion, Judge Sloviter, noted that she voted to uphold the forty-two-day restriction only because she was bound by the 1982 opinion in the same case.[297] In her view, that restriction should have been held preempted:

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[293] Allied Artists Pictures Corp. v. Rhodes, 679 F.2d 656, 658 (6th Cir. 1982).
[294] *Allied Artists*, 496 F.Supp. at 446 (analysis approved on appeal, *Allied Artists*, 679 F.2d at 663).
[295] *Id.* at 447. These cases included United States v. Paramount Pictures, Inc., 334 U.S. 131, 156-57 (1948) (block booking as federal antitrust violation); Watson v. Buck, 313 U.S. 387 (1941) (treating ASCAP as an illegal combination in violation of Florida competition law); Interstate Circuit v. United States, 306 U.S. 208, 230 (1939) (film distribution license setting minimum admissions price violated federal antitrust law).
[296] Associated Film Distribution Corp. v. Thornburgh, 800 F.2d 369 (3d Cir. 1986); Associated Film Distribution Corp. v. Thornburgh, 683 F.2d 808, 812 (3d Cir. 1982).
[297] *Thornburgh,* 800 F.2d at 377 n.3.

> The Copyright Act gives the owner of a copyright the exclusive right to distribute copies of the copyrighted work by rental, lease, or lending. That right encompasses the grant of an exclusive license for a period as long as the copyright owner desires within the term of the copyright.[298]

In 1999, Judge Sloviter's analysis of the forty-two-day restriction prevailed. Facing the identical question in *Orson v. Miramax Film Corp*., a case involving different parties, she held that conflict preemption applied:

> A distributor who exercises its federal right to grant an exclusive license to an exhibitor of choice will be subject to liability under the Pennsylvania Act for refusing to grant licenses to other exhibitors in the same geographic area after the forty-second day. The potential for liability under the state law for the copyright holder's exercise of its federal rights became a reality in this case and illustrates the conflict created by the Pennsylvania Act. It is evident that the Pennsylvania Act regulates the essence of the federally protected copyright.[299]

In contrast to the other provisions of the Pennsylvania statute that were upheld in 1982 and 1986, the forty-two-day restriction did not merely regulate the terms of the film exhibition license. It effectively compelled the distributor to license the film to other exhibitors after the first exhibitor's forty-two days of exclusivity. Judge Sloviter distinguished between state regulatory schemes that affect copyrights only "indirectly" and those that are "copyright-based in essence," and applied conflict preemption only to the latter, because they "directly regulate[] a right that is protected by federal

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[298] *Id.* (citations omitted) (citing M. Nimmer, *Nimmer on Copyright* § 8.11 at 8–115 (1985)).
[299] Orson v. Miramax Film Corp., 189 F.3d 377, 385 (3d Cir. 1999).

copyright."[300] Because the Pennsylvania statute prohibited the copyright owner from granting an exclusive copyright license lasting more than forty-two days, it interfered with the copyright owner's exclusive right to choose *not* to license its work.[301] This brought it squarely within the Supreme Court's *Doyal* and *Abend* precedents.[302]

In another case involving film exhibition licenses, *Warner Bros., Inc. v. Wilkinson,* a district court rejected a preemption challenge against a Utah statute that prohibited distributors from imposing minimum guarantees or minimum ticket prices on exhibitors. Noting that the "principles of contract law are generally applicable in the construction of copyright assignments, licenses, and other transfers of rights,"[303] and that "[s]tates may restrict the forms of enforceable agreements that private parties may enter into through contract law embodied in statutes,"[304] the court held that conflict preemption did not apply:

> No one has appropriated a product protected by the copyright law for commercial exploitation against the copyright owner's wishes. The right to transfer or license copyrighted material for use by others under sections 106 and 201 et seq. of the Copyright Act has never encompassed a right to transfer the work at all times and at all places free and clear of all regulation; it has meant that the copyright owner has the exclusive right to transfer the material for a consideration to others.[305]

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[300] *Id.*
[301] *Id.*
[302] *See supra* notes 249-250 and accompanying text.
[303] Warner Bros., Inc. v. Wilkinson, 533 F.Supp. 105, 108 (D. Utah 1981), *appeal dismissed and case remanded on other grounds*, 782 F.2d 136 (10th Cir. 1985).
[304] *Id*. (citing 2 Corbin on Contracts §§ 275-531; 6A Corbin on Contracts §§1373-1541 (1962); Interstate Circuit, Inc. v. United States, 306 U.S. 208, 227 (1939)).
[305] *Id*. (citing Morseburg v. Balyon, 621 F.2d 972, 977 (9th Cir. 1980)).

If copyright law preempted state laws regulating contracts, the court observed, "videocassettes of Warner Brothers motion pictures marketed by Warner Brothers would be exempt from the sale of goods provisions of the Utah Uniform Commercial Code," and film distribution contracts would be exempt from the statute of frauds.[306]

In contrast to the many cases upholding state regulation of copyright licenses during the 1980s, one of the rare cases from that period holding that copyright law preempted state regulation of contracts is *Vault Corp. v. Quaid Software, Ltd.*[307] Notably, this case held that preemption applied because the state law in question interfered not with the rights of the copyright owner, but with the rights that Congress granted to the *public* under the copyright laws.

In *Vault*, a Louisiana statute regulating software licenses specifically permitted enforcement of a "shrinkwrap" provision that prohibited the licensee from decompiling or disassembling the software.[308] The Fifth Circuit found that this provision interfered with the rights that section 117 of the Copyright Act grants to the owner of a copy of a computer program.[309] It therefore held that the state law was preempted, and the contract provision was unenforceable.[310] Other courts have rejected *Vault*'s analysis, however, upholding the enforceability of contracts in which one party surrenders a right that it would otherwise enjoy under federal copyright law.[311]

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[306] *Id*. at 108 n.8 (citations omitted).
[307] 847 F.2d 255 (5th Cir. 1988).
[308] *Id.* at 269-70.
[309] *Id.* at 270.
[310] *Id*. There is a significant problem with the court's conclusion that section 117 would have applied in the absence of the contractual restriction. Section 117 protects the *owner* of a copy of software, 17 U.S.C. § 117(a), while the contract at issue in *Vault* purported to be a license, thus arguably making the possessor of the software a licensee rather than an owner. *See* Applied Information Management, Inc. v. Icart, 976 F.Supp. 149, 153 (E.D.N.Y. 1997) (noting that *Vault* applied section 117 to a licensee "without explanation").
[311] *See*, *e.g.*, Bowers v. Baystate Technologies, Inc., 320 F.3d 1317, 1325-26 (Fed. Cir. 2003).

Since the 1980s, however, courts have been more receptive to conflict preemption claims involving copyright law. For example, the Southern District of New York applied preemption analysis in 1996 to enjoin a state law that did not specifically regulate copyright licenses but regulated the conduct of copyright owners (acting through their agents) in attempting to detect infringements. In *ASCAP v. Pataki,*[312] the court granted a preliminary injunction against a New York State law that sought to regulate certain enforcement activities of two performing rights organizations (PROs), the American Society of Composers, Authors, and Publishers (ASCAP) and Broadcast Music, Inc. (BMI), with respect to unauthorized public performances of their members' copyrighted musical compositions.

The state law in question restricted a practice used by the PROs to investigate potential infringements of their members' copyrights. Under that practice (which remains largely unchanged today), when the operator of a venue where music is publicly performed declines to enter into a blanket license with one of the PROs, the PRO seeks to enforce its members' copyrights by sending an undercover investigator to visit the establishment to observe which of their copyrighted works are being performed.[313] The investigators frequently make repeat visits to the same establishment in order to establish a pattern of infringement.[314] The record thus created serves as the basis for an infringement suit against any establishment that persists in refusing to enter a blanket license.[315]

The state law required each PRO to provide written notice to the proprietor of an establishment within 72 hours after its representative had entered the establishment to investigate its music performances.[316] The notice was required to include the

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[312] *Pataki*, 930 F.Supp. 873 (S.D.N.Y. 1996).
[313] *Id.* at 875-76.
[314] *Id.* at 876 & n. 4.
[315] *Id.* at 876.
[316] *Id.*

name of the PRO, the date of the visit, and the copyrighted works that were performed during the visit.[317]

The district court granted the PROs' request for a preliminary injunction on the grounds of conflict preemption. It found that the 72-hour notice requirement would obstruct the PROs' ability to investigate copyright infringement for two reasons: First, it would impede the effectiveness of the investigator's follow-up visits by putting the targeted establishment on notice that it was being investigated.[318] Second, because it could take more than 72 hours for the investigator to prepare and submit a report, and for the PRO to analyze the report to determine whether infringement had occurred, to prepare the required notice, and to deliver the notice to the infringing establishment, it might be difficult or impossible for PROs to comply with the statute, thus subjecting them to liability under state law as a consequence of their

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[317] *Id.* The statute provided, in relevant part:

> 4. No performing rights society or any agent or employee thereof shall: ...
>
> > (c) fail to provide written notice to a proprietor or his or her employees within seventy-two hours after entering the proprietor's business for the purpose of investigating the possible performance, broadcasting or transmission of nondramatic musical works, and disclosing that such agent or employee was investigating on behalf of such performing rights society and disclosing:
> >
> > > (1) the name of the performing rights society
> > >
> > > (2) the date on which such agent or employee conducted the investigation; and
> > >
> > > (3) the copyrighted works in such performing rights society's repertory performed at the business during the investigation.
>
> 5. Any person who suffers a violation of this section may bring an action to recover actual damages and reasonable attorney's fees and seek an injunction or other remedy law or equity....

N.Y. ARTS AND CULT. AFF. LAW §§ 31.04.4(c), 31.04.5.

[318] *Pataki,* 930 F.Supp. at 877.

efforts to enforce their members' rights under federal copyright law.[319] For these reasons, the court held that the state law created "an obstacle to the accomplishment and execution of the full purposes and objective of Congress in enacting the federal copyright statute," thereby giving rise to conflict preemption.[320]

The Ninth Circuit also found preemption where a state law enlarged the rights of authors in a way that interfered with rights Congress had granted to the public under a federal copyright exception. The *Sotheby's* case held that California's Resale Royalty Act, which required a royalty to be paid to the original artist whenever a work of fine art was resold, was preempted because it created a new type of distribution right for authors that interfered with the rights of the sellers under the federal first sale rule.[321] Like the Louisiana statute in *Vault*, the resale royalty statute strengthened the rights of copyright owners but interfered with the rights Congress granted to the consuming public—in this case, those who had purchased the physical embodiments of the artwork.[322]

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[319] *Id.* at 877.

[320] *Id.* at 880.

[321] Close v. Sotheby's, Inc., 894 F.3d 1061, 1069-72 (9th Cir. 2018).

[322] In a somewhat odd analysis, the Ninth Circuit held in *Sotheby's* that express preemption rather than conflict preemption applied. Although it acknowledged that the resale royalty statute conflicted with the first sale rule, *Sotheby's,* 894 F.3d at 1071, the court based its holding solely on express preemption under 17 U.S.C.§ 301, because the resale royalty law also enlarged the exclusive distribution rights of artists, thus creating a right "equivalent" to the right granted by 17 U.S.C. § 106(3). *Id.* at 1070. The court declined to apply conflict preemption, relying on its previous (and questionable) holding in *Morseburg v. Balyon*, 621 F.2d 972 (9th Cir. 1980), a case decided under the Copyright Act of 1909, that requiring sellers of artwork to share their proceeds with the artists did not, "technically speaking," interfere with the sellers' first sale rights. *Id.* at 977. Although the court acknowledged that it might "decide *Morseburg* differently if presented to us today," *Sotheby's,* 894 F.3d at 1073, it declined to overrule that precedent. *Id.* at 1074. *Compare* Estate of Graham v. Sotheby's, Inc., 178 F.Supp. 3d 974, 998 (C.D. Cal. 2016) (holding that *Morseburg* was wrongly decided, and that conflict preemption applied to the resale royalty law), *rev'd in relevant part and remanded*, Close v. Sotheby's, Inc., 894 F.3d 1061 (9th Cir. 2018).

One way to reconcile these cases is by considering the goal of the state laws in question. In *Vault, Pataki*, *Miramax*, and *Sotheby's,* the state laws in question were crafted with the specific goal of restricting rights otherwise provided by federal copyright laws—either to copyright owners (*Pataki, Miramax*) or to the public (*Vault*, *Sotheby's*). In other words, both laws were copyright-specific. In *Vault,* the Louisiana law was specifically designed to enable copyright owners to limit the rights granted to software purchasers under federal copyright law. In *Pataki*, the New York statute was designed to restrict the ability of copyright owners to enforce their copyrights. In *Miramax,* the 42-day limit on exclusive licenses specifically curtailed the exclusive distribution rights of copyright owners. In *Sotheby's*, the resale royalty law was designed to alter the balance of rights between copyright owners and consumers that purchased the physical artwork. These were not laws of general application, such as antitrust, tax, or unfair competition laws.

In contrast, the film exhibition cases (other than *Miramax*) did not single out copyrights for special treatment.[323] Instead, they subjected copyright licenses to competition laws of general application—the same laws that governed transactions involving non-copyrightable subject matter. Because conflict preemption asks whether a state law serves as an obstacle to the objectives of federal copyright law,[324] these cases suggest that copyright law's objectives do not always prioritize profit maximization for copyright owners and therefore do not require states to exempt copyrights from laws of general application, such as competition laws. This is consistent with the Supreme Court's repeated admonition that "[t]he copyright law, like the patent statute, makes reward to the owner a secondary consideration."[325] Unlike state laws that are

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[323] *See supra* notes 293-305 and accompanying text.

[324] *See supra* note 237 and accompanying text.

[325] Sony Corp. v. Universal City Studios, Inc., 464 U.S. 217, 429 (1984) (quoting United States v. Paramount Pictures, 334 U.S. 131, 158 (1948)); *see also* Fox Film Corp. v. Doyal, 286 U.S. 123, 127 (1932) ("The sole interest

specifically directed at copyrights—either weakening them (as in *Pataki* or *Miramax*) or strengthening them (as in *Vault* or *Sotheby's*)—laws of general application, such as competition laws, are less likely to interfere with the balance that Congress has calibrated between the rights of copyright owners and the rights of consumers.

The Supreme Court's decision in *Watson v. Buck* does not fit comfortably in this schema. As noted earlier,[326] the anti-ASCAP provision upheld in that case was not an antitrust or unfair competition law of general application; it applied specifically to music PROs. Therefore, proponents of the Model Law could argue that *Watson* permits states to regulate the terms of copyright licenses through laws specifically targeting copyrights. On the other hand, the Court's reasoning in *Watson* fell short of a full preemption analysis. In addition, while the Florida law specifically targeted copyright owners, its prohibition against blanket licensing could be seen as a specific application of a broader antitrust principle which the state should be free to apply to any concerted action that the legislature perceived as anti-competitive, regardless of the nature of the commodity being offered.

This analysis suggests that preemption may indeed present a problem for state laws that are based on the Model Law. Even though the Model Law does not compel publishers to license their eBooks to libraries, it is specifically directed at weakening the publishers' exclusive rights in their copyrighted works. Notably, it prohibits publishers from using their licenses to limit the library's lending of electronic literary materials. As discussed earlier,[327] libraries do not necessarily have a legal right to lend electronic materials if the lending process involves making an unauthorized digital copy, because the first sale rule has not, thus far, been construed to authorize copying in aid of distribution. In addition, because the first sale rule permits distribution only by the *owner* of a copy, it does not grant any

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of the United States and the primary objective in conferring the monopoly lie in the general benefits derived by the public from the labors of authors.").

[326] *See supra* notes 285286 and accompanying text.

[327] *See supra* notes 80-98 and accompanying text.

rights to licensees.[328] Thus, as currently interpreted by the courts, copyright law does not allow libraries to digitally transfer their copies, even by lending (except in the unlikely event that fair use applies[329]). If the Model Law prohibits a publisher from restricting a library's digital lending of a work, then it deprives the publisher of its right to prevent unauthorized copying and distribution under section 106.[330] Thus, the Model Law's restrictions are copyright-specific; they do not merely subject eBook licenses to laws of general application, such as competition laws. Instead, they impede the copyright owner's ability to exercise its exclusive rights.

C. Flipping the Script in Connecticut

These preemption concerns have led to a new and differently structured legislative proposal in Connecticut. Introduced in 2025, HB 6958 essentially "flips the script" of the Model Law. Instead of limiting publishers' rights, it would limit the rights of libraries, by prohibiting state-financed libraries[331] from entering into any licenses that restrict the library from "performing customary operational or lending functions."[332] The specific restrictions are similar to those listed in the Model Law.[333] For example, a license would be ineligible if it:

> (1) prohibits lending;
>
> (2) restricts *both* the number of times a library can lend a digital work *and* the loan period;

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[328] *See supra* notes 78-79 and accompanying text.
[329] *See supra* notes 210213 and accompanying text.
[330] 17 U.S.C. §§ 106(1), (3).
[331] The law would apply to all libraries in Connecticut that receive any direct or indirect funding from the state or from any of its political subdivisions. *An Act Making Certain Terms in Electronic Book and Digital Audioboook License Agreements or Contracts Unenforceable*, H.B. 6958, Gen. Assemb. (Conn. 2025) (referred to Office of Legislative Research and Office of Fiscal Analysis on March 25, 2025), § 1(a)(5). It received a favorable committee vote on March 7, 2025. James Watson, *Committee OKs Bill that Would Limit Contracts with e-book Publishers,* CT MIRROR (Mar. 7, 2025), https://ctmirror.org/2025/03/07/ct-library-e-book-contracts/.
[332] H.B. 6958, *supra* note 331, § 1(c).
[333] *See supra* notes 263264 and accompanying text.

> (3) limits the number of licenses a library can purchase on the same date the electronic material is offered to the public for purchase;
>
> (4) prohibits the library from making nonpublic preservation copies;
>
> (5) prohibits the library from disclosing the terms of its license to other libraries in the state;
>
> (6) restricts the duration of the license *unless* the library also has the option of obtaining a license on commercially reasonable terms (considering the library's mission) that either: (A) is based on a pay-per-use model, or (B) allows the perpetual public use of the electronic material; or
>
> (7) requires the library to violate its obligation under state law to maintain the privacy of its users.[334]

In contrast, the law expressly *permits* provisions that limit the number of borrowers that the library may permit to access the work simultaneously, or that impose reasonable technological protection requirements to prevent borrowers from sharing their access with other borrowers or continuing to access a work after their loan period expires.[335]

If enacted, HB 6958 should avoid preemption, because it does not impose any legal restrictions on a publisher's rights under section 106 to prevent the unauthorized reproduction or public distribution of its digital materials. Instead, by prohibiting libraries from entering into unduly restrictive licenses, the law reduces the *demand* for digital materials, thereby creating an economic incentive for publishers to offer

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[334] H.B. 6958, *supra* note 331, § 1(c)(1)-(7). In addition, clauses that violate these restrictions cannot be enforced except in a judicial forum, and if a court finds such a violation, the clause in question it must be severable from the rest of the license. *Id*. § 1(c)(8)-(9).

[335] *Id*. § 1(d).

better licensing terms in order to avoid losing libraries as customers.

Opponents of HB 6958 have argued that it would deter publishers from continuing to offer eBook licenses to Connecticut libraries.[336] Another possibility is that publishers might offer compliant licenses, but at greatly increased prices. Libraries would then have to choose between paying the higher prices or foregoing the licenses altogether, essentially returning them to the status quo. Either of these results would exacerbate the problem of digital scarcity.

In theory, a state could respond to exorbitant pricing of compliant licenses by setting a price cap on the amount each library is permitted to pay for a license, such as a specific percentage increase over the price available to individual consumers. However, setting such a cap by reference to consumer prices is likely to be difficult, because library licenses for different works, and from different publishers, are unlikely to be uniform in their terms and conditions. Thus, some may closely resemble consumer licenses, while others may be markedly different. To make a price cap feasible, state law would also have to establish a template for permissible library licenses that is more precise than HB 6958 provides. Publishers, of course, would be free to walk away if the terms were unacceptable, leaving the libraries once again without the licenses they need.

While concerns about publishers bypassing individual states or pricing them out of the market may be legitimate, it remains to be seen whether publishers would actually be willing to surrender the entire library market in a particular state. Also, these concerns would be allayed if a large number of other states adopted similar legislation. Under these circumstances, publishers would suffer significant economic consequences if they chose to forego multiple library markets.

In addition to the concern over publisher boycotts, HB 6958 does not do enough protect the privacy of library users.

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[336] Ken Dixon, *After Years of Trying, CT Lawmakers Think They Have the Right Bill to Save Libraries Money on e-Books,* CT INSIDER (Feb. 13, 2025), https://www.ctinsider.com/politics/article/connecticut-bill-library-e-books-publishers-20154344.php.

Although the bill preserves the library's statutory obligation to protect the privacy of its patrons, it does not directly address the privacy concerns that arise from allowing publishers to dictate the third-party lending platforms that library patrons must use in order to access the digital materials they have borrowed. Because the libraries have no direct control over the data collected by operators of those platforms, user privacy can still be compromised.

Despite its shortcomings, HB 6958 could serve as a model for other states. It remains to be seen, however, whether the bill will become law, whether the dire consequence of a publishers' boycott will come to pass, and whether other states will be willing to follow Connecticut's example, thereby forcing publishers to the bargaining table. And once the parties are at the bargaining table, it remains to be seen whether libraries around the country are equipped to negotiate favorable terms with publishers, or whether individual states can negotiate terms on behalf of all of their publicly funded libraries.

D. Inadequacy of State-Based Solutions

As this analysis has suggested, there is a serious risk that state laws based on the Model Law will be struck down on preemption grounds. The alternative approach under consideration in Connecticut is more promising. However, it still compels libraries or state agencies to engage in sophisticated negotiations with publishers – not just once, but every time an existing eBook license expires. In the alternative, each state will have to establish a precise template and pricing structure for eligible library licenses, and revisit these parameters as circumstances change. And, of course, some states may choose not to enact any restrictions at all, due to powerful opposition by the publishing industry, or to concerns about preemption or publisher boycotts.[337]

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[337] *See, e.g., AAP Statement of Opposition to CT HB6800*, *supra* note 217; Kurt Brackob, Independent Book Publishers Association, *Position Statement on the Maryland eBook Law and Its Impact on Small Publishers and Authors* (Feb. 24, 2022), https://cdn.ymaws.com/www.ibpa-

The most likely outcome is a patchwork of protection, with libraries in some states enjoying more affordable eBook licenses than others. Given the significant disparities in public education[338] and literacy[339] levels that already exist among the states, this could be seen as simply an inevitable consequence of states exercising their sovereignty in making public policy choices, as well as differences in state demographics and economic opportunity.[340] On the other hand, if public libraries in a large number of states continue to suffer the financial consequences of exorbitant eBook costs, this could have a negative effect on the collective information literacy of the entire country. As publishers shift more content from print to digital formats, and as consumers increasingly demand those formats, the financial impact on public libraries will increase. Strained budgets may force libraries to cut back on investments

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online.org/resource/resmgr/docs/ibpa-maryland-eBook-law.pdf [https://perma.cc/RD5L-8DCX]; Alison Kuznitz, *E-Book Access Bill Draws Opposition from Publishers*, DAILY HAMPSHIRE GAZETTE (Nov. 1, 2023), https://www.gazettenet.com/E-book-access-bill-draws-opposition-from-publishers-52870143; Authors Guild, *Update: Authors Guild Statement on AAP's Win in Maryland EBook Licensing Case* (June 14, 2022), https://authorsguild.org/news/authors-guild-statement-on-aaps-win-in-maryland-e-book-licensing-case [https://perma.cc/TZS8-RZPG]; Alden Abbott, Adam Mossoff, Kristen Osenga & Zvi Rosen, *State Mandates for Digital Book License to Libraries are Unconstitutional and Undermine the Free Market,* FEDERALIST SOCIETY (Feb. 13, 2023), https://rtp.fedsoc.org/paper/state-mandates-for-digital-book-licenses-to-libraries-are-unconstitutional-and-undermine-the-free-market/.

[338] There are many comparative studies and rankings of educational achievement among the different states. For one that considers both quality of education and levels of academic achievement, and provides a detailed methodology, *see* Adam McCann, *Most & Least Educated States in America (2024),* WALLETHUB (Feb. 12, 2024), https://wallethub.com/edu/e/most-educated-states/31075 [https://perma.cc/NWW5-F5CW].

[339] *See* World Population Review, *U.S. Literacy Rates by State 2024,* https://worldpopulationreview.com/state-rankings/us-literacy-rates-by-state [https://perma.cc/NPZ3-7FDG].

[340] Public library systems have also been ranked. *See, e.g.,* John Harrington, *Best States for Public Libraries*, 24/7 WALL ST (Feb. 16, 2022), https://247wallst.com/special-report/2022/02/16/best-states-for-public-libraries/.

in their brick-and-mortar facilities in order to fund their digital lending programs, accelerating the shift to digital lending while undermining other important, in-person services and programming that libraries provide.[341] At that point, the problem becomes one of national concern, requiring a national solution.[342]

IV. The Case for a Federal Copyright Amendment

As discussed above, strengthening the position of libraries through state legislation will lead at best to piecemeal protection, and, at worst, to no protection at all. Libraries in some states could remain unprotected for many years into the future. Even where state law protection is available, libraries and borrowers may not have the financial resources to enforce their rights, and state attorneys general might not prioritize these actions. This could lead to some libraries receiving greater protection than others, creating and deepening a digital divide between communities well-served by digital lending and those that become digital lending deserts.

While the preemption doctrine precludes states from compelling copyright owners to license their works on favorable terms, it does not prevent the federal government from doing so. Congress has already imposed numerous limits on the rights of copyright owners to refuse to license their works. Some of these are outright exceptions, while others take the form of compulsory licenses.

Of the many outright exceptions in the copyright statutes, several are specific to libraries or other nonprofit lenders. For example, the first sale rule itself incorporates special protections for nonprofit lending. While it allows copyright owners to prevent most commercial lending of sound recordings and computer software,[343] it explicitly recognizes

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[341] Without brick-and-mortar facilities to support lending of hard copies, libraries could no longer supplement their limited acquisition budgets through donated copies of books and phonorecords and could no longer serve patrons who prefer (or need) physical media rather than digital media.
[342] For another perspective on the urgency of this problem, *see* Guy A. Rub, *Reimagining Digital Libraries*, 113 GEO. L.J. 191 (2024).
[343] 17 U.S.C. § 109(b)(1)(A).

lending privileges for nonprofit libraries and nonprofit educational institutions with respect to these same categories of works:

> Nothing in the preceding sentence shall apply to the rental, lease, or lending of a phonorecord for nonprofit purposes by a nonprofit library or nonprofit educational institution. The transfer of possession of a lawfully made copy of a computer program by a nonprofit educational institution to another nonprofit educational institution or to faculty, staff, and students does not constitute rental, lease, or lending for direct or indirect commercial purposes under this subsection.[344]

The DMCA's anticircumvention provisions also incorporate a library exception.[345] Although the general rule of section 1201 creates liability for circumventing a technological measure that prevents access to a copyrighted work,[346] an exception permits nonprofit libraries, archives, and educational institutions to circumvent such protection "in order to make a good faith determination whether to acquire a copy of that work" provided that the (1) a copy of the work is not reasonably available in another form, and (2) the accessed copy is not retained longer than necessary and is not used for any other purpose.[347]

As noted earlier,[348] section 108 allows libraries and archives, under specified conditions, to make, and in some cases distribute, copies or phonorecords of copyrighted works for limited purposes, including preservation, private research, deposit for research use at another library or archive, or replacement of lost or damaged copies or copies in obsolete formats.[349] Although different privileges are subject to different conditions and limitations, all of the section 108

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[344] *Id.*
[345] *Id.* § 1201(d).
[346] *Id.* § 1201(a)(1)(A).
[347] *Id.* § 1201(d)(1).
[348] *See supra* note 42-44 and accompanying text.
[349] 17 U.S.C. § 108.

privileges are subject to the following conditions: (1) the reproduction and distribution must be done "without any purpose of direct or indirect commercial advantage"; (2) the library's collections must be open to the public or to persons doing research in a specialized field even if they are not affiliated with the library or the institution of which it is a part; and (3) the reproductions must display a copyright notice or a legend stating that the work may be protected by copyright (if there was no copyright notice on the underlying copy that the library reproduced).[350]

Although most of the section 108 privileges apply to reproductions regardless of their format, two provisions specifically address digital copies.[351] The nature of these limitations depends on whether the work in question is published or unpublished. In the case of unpublished works, a library[352] can make up to three digital copies of a work currently in its collection "solely for purposes of preservation and security or for deposit for research use in another library," but the digital copies may not otherwise be distributed in that format or made available to the public outside of the library premises.[353] In the case of published works, a library can make up to three digital copies of a work solely to replace a copy that has been damaged, lost, or stolen, that is deteriorating, or that is in an obsolete format, but only if (1) the library has determined that it cannot obtain an "unused replacement" at a "fair price," and (2) the digital copy is not made available to the public in digital format outside the premises of the library that is in lawful possession of that copy.[354]

Section 108 thus recognizes that certain exceptions are necessary for libraries to carry out their essential functions. Due to the growing demand for nonprofit digital lending, and the high cost of those lending rights, Congress should consider updating section 108 to reflect these economic and

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[350] *Id.* § 108(a)(1)-(3).
[351] In their current form, these exceptions do not extend to CDL activities.
[352] The same rules apply to archives, but the term "library" is used here for simplicity.
[353] 17 U.S.C § 108(b)(1)-(2).
[354] *Id.* § 108(c)(1)-(2).

technological changes. The Model Act, while subject to preemption concerns at the state level, could provide the foundation for such a federal amendment. Under this approach, if a nonprofit library is unable to obtain an eBook or audiobook license on terms that comply with a federal version of Model Act, the amended statute would give the library the right to engage in CDL by lending one digital copy at a time for each digital or hard copy of the work contained in its collection, until such time as the publisher supplies the library with a license that complies with the statute.[355]

As an alternative to the exception described above, Congress could enact a compulsory (or "statutory") license for nonprofit library lending. The copyright statutes already contain several compulsory licenses that can serve as models. One of the oldest and best-known is the section 115 mechanical compulsory license. Under specified circumstances, section 115 permits the creation and commercial distribution of sound recordings that embody copyrighted musical works even without the consent of the copyright owners of the musical works.[356] Other compulsory licenses permit cable and satellite systems to provide their subscribers with copyrighted content from television broadcasts,[357] and permit certain satellite and internet music services to transmit copyrighted sound recordings to their listeners without obtaining a negotiated license from the record labels. [358] Under each of these

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[355] Copyright misuse cases provide a useful analogy. When a copyright owner engages in copyright misuse (*e.g.*, through an unlawful tying arrangement or other anticompetitive licensing provision), the copyright cannot be enforced against *any* infringer until the misuse comes to an end. *See*, *e.g.*, Alcatel USA, Inc. v. DGI Technologies, Inc., 166 F.3d 772, 794-95 (5th Cir. 1999) (tying arrangement); Practice Management Information Corp. v. American Medical Ass'n, 121 F.3d 516, 518 n.3, 520 (9th Cir. 1997) (anticompetitive provision); Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1990) (anticompetitive provision). The proposed amendment to section 108, however, would be less extreme, since it would make the copyright temporarily unenforceable *only* against the nonprofit libraries that were unable to obtain licenses that comply with the statute.

[356] 17 U.S.C. § 115.

[357] *Id.* §§ 111, 119, 122.

[358] *Id.* § 114(d)(2), (f).

compulsory licenses,[359] the copyright owner cannot withhold the license, or dictate its terms, but the licensee must abide by the conditions set forth in the relevant statute, which include payment of the statutory royalty (in most cases[360]) as well as specific restrictions on how the copyrighted work may be exploited.[361]

In addition to compulsory licenses in which royalties and other terms are established by law, Congress has also enacted a provision that prioritizes voluntary license negotiations but authorizes a court to determine the copyright owner's compensation if voluntary negotiations fail. In the case of foreign works that entered the public domain but subsequently had their copyrights restored, derivative works created while the foreign work was in the public domain may continue to be exploited after copyright restoration if the owner of the derivative work pays "reasonable compensation" to the owner of the restored copyright. In the absence of an agreement between the parties, a federal court will determine the compensation.[362]

Although this approach allows the royalty determination to take account of facts and circumstances that are unique to a particular situation, requiring federal courts to determine royalties on a case-by-case basis is significantly less efficient than a compulsory licensing scheme that implements a predetermined royalty set by Congress or an administrative process. The latter is less appropriate for the types of licenses

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[359] There is also statutory provision for a compulsory jukebox license, *id.* § 116(b)-(c); 37 C.F.R. § 388.3, but this is largely obsolete now that jukebox operators may obtain an economical jukebox license from PROs or their agents. Jukebox License Office, *Copyright Law and Your Jukebox – Q&A,* https://www.ascap.com/~/media/920D3FAF327B404CA8138B6E62A51689.pdf [https://perma.cc/Q6SN-FR67]. The statute expressly prioritizes such voluntary licenses over the compulsory license. 17 U.S.C. § 116(c).

[360] Section 122 does not require a royalty payment. 17 U.S.C. § 122.

[361] For example, the mechanical compulsory license limits the licensee's ability to make changes to the musical work, *id.* § 115(a)(2), and the statutory license to stream sound recordings applies only to radio-style streaming services, where users cannot choose or predict the specific recordings they will hear at any given time. *Id.* § 114(d)(2).

[362] 17 U.S.C. § 104A(d)(3)(B).

that vary widely in their terms—such as derivative work licenses for restored copyrights—but far more appropriate for licenses that lend themselves to standardization, such as compulsory mechanical licenses for musical works.

Digital lending licenses for nonprofit libraries fit into this latter category. Each library would need essentially the same rights and comply with essentially the same limitations for each eBook or audiobook that it exploits under a compulsory license.[363] While the popularity of individual titles will vary widely, that is equally true for the musical works and sounds recordings currently covered by statutory licenses. The *method* of calculating the statutory royalty under each of these provisions is the same for each work and takes into account demand for the work, so that copyright owners whose songs or sound recordings are sold or streamed more often are subject to the same royalty rate, but receive higher royalties in total simply because of the higher volume of use. The same approach could apply to digital lending and would allow the copyright owners of more popular works to receive greater total revenues because their works would be borrowed more often.

A federal copyright exception or compulsory license would avoid preemption and provide uniform nationwide protection for libraries. Congress would be free to decide, as a matter of policy, which libraries would be eligible. The statute could be limited to traditional public libraries, or it could include public school libraries, or nonprofit libraries in general. It could also extend to libraries associated with private schools, private colleges, and universities. It could even extend to libraries with religious affiliations. In addition, a federal statute could address the privacy concerns arising from third-party control of eBook lending platforms.

The options presented here bear some resemblance to the approach that currently applies in the European Union (EU). Although the EU does not have specific regulations addressing digital library lending, the Court of Justice of the European

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[363] It is possible that the technological and economic differences between eBooks and audiobooks might warrant different royalty rates. If so, this could be addressed through separate rate-setting proceedings.

Union (CJEU) held in 2016 that the library lending privilege recognized in the Rental and Lending Rights Directive[364] can encompass lending in digital formats.[365] In contrast to federal copyright law, the library lending privilege in the EU is conditioned on payment of "equitable remuneration" to authors.[366] The CJEU ruling simply extends this principle from the lending of physical copies to the lending of digital copies. As a result, libraries in Member States that engage in digital lending must do so under conditions comparable to the lending of print copies (one copy to one user at any given time), and must pay the authors equitable remuneration as determined by their national governments.[367] Like the proposals presented here, the CJEU's ruling takes account of the public interest in protecting copyrights,[368] the need to adapt copyright law to new economic developments,[369] and the significant public benefits

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[364] Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on Rental and Lending Right and on Certain Rights Related to Copyright in the Field of Intellectual Property, 2006 O.J. (L 376) 28.

[365] Case C-174/15 , Vereniging Openbare Bibliotheken v. Stichting Leenrecht, ECLI:EU:2016:856 (Nov. 10, 2016). The ruling applies specifically to lending practices that mimic the lending of a physical copy – that is, placing a digital copy of a book on the library's server, allowing only a single patron to reproduce that copy by downloading it, making the downloaded copy unavailable to the patron after the borrowing period expires, and making the server copy unavailable to other patrons during the borrowing period. *Id.* ¶¶ 52-53.

[366] Directive 2006/115/EC, supra note 351, at art. 6, ¶ 1. While the Directive's "equitable remuneration" right applies to "authors" due to the EU's author-focused copyright regime, a compulsory license for digital library lending in the U.S. would compensate copyright *owners* under the owner-focused regime of U.S. copyright law.

[367] Consistent with the policy objective of combating piracy, the CJEU held the digital lending privilege does not apply if the library acquired its digital copy from an "unlawful source." *Vereniging Openbare Bibliotheken*, ECLI:EU:2016:856 ¶¶ 67, 72. The ruling does not indicate whether it would be lawful for a library itself to make an unauthorized digital copy of a physical book for the purpose of exercising its lending privilege.

[368] *Id.* ¶ 46.

[369] *Id.* ¶ 45.

of the library lending privilege.[370] Federal legislation can advance these same policies by recognizing an unwaivable library lending privilege for eBooks, conditioned on fair compensation for the copyright owners.

Conclusion

The technology that enables the digital licensing of eBooks and audiobooks has revolutionized access to literary works, making it possible for patrons to access books even when they cannot physically visit libraries or afford to purchase every book they wish to read. Ironically, however, this revolution in access has impaired rather than improved the ability of libraries to provide essential lending services to their patrons, as publishers have imposed onerous licensing terms that threaten the libraries' ability to carry out their core mission. In response, some libraries have attempted to bypass these licenses by creating and lending their own digital reproductions of books in their collections under controlled conditions designed to minimize harm to the copyright owners.

Unfortunately, the current state of the law exposes libraries to copyright infringement liability even for the most carefully controlled nonprofit digital lending activities in the absence of a license from the copyright owner. Libraries cannot rely on copyright's first sale rule for protection, because it permits only the lending of physical copies. In the alternative, some libraries hope to rely on fair use, but their prospects for success in this affirmative defense are doubtful. State legislation designed to compel publishers to grant favorable licenses to libraries has been strongly opposed by the publishing lobby. Some of these proposals, even if enacted, face a high risk of preemption. While the most recent proposal avoids this problem, it places a heavy burden of negotiation on libraries and state agencies,

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[370] *Id.* ¶ 51. As Guy Rub points out, EU libraries still face obstacles in obtaining lendable copies of eBooks, because the CJEU ruled in 2019 that copyright exhaustion does not apply to eBooks. Case C-263/18, Nederlands Uitgeversverbond and Groep Algemene Uitgevers v. Tom Kabinet, ECLI:EU:C:2019:1111 (Dec. 19, 2019); *see* Rub, *supra* note 342, at 219.

and will, at best, lead to different degrees of protection in each state.

For these reasons, the best solution to the digital lending problem is to amend the federal copyright laws by creating either a library lending exception based on the Model Law or a compulsory library lending license. Although these solutions, too, will face opposition from publishers, Congress should heed the Supreme Court's admonition that the overarching goal of copyright law is to benefit the public rather than to maximize the profits of copyright owners.