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Licensing *Journal*[®]

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[name of Licensor]

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Title:

[name of Licensee]

By:

Title:

Schedule A – Titles

[attach list of Titles]

[The Licensing Journal, Controlled Digital Lending After Hachette Book Group Inc. v. Internet Archive, \(Jan. 1, 2025\)](#)

Controlled Digital Lending After Hachette Book Group Inc. v. Internet Archive

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The future of controlled digital lending (CDL), the digital equivalent of traditional library lending, ^[1] is uncertain after the United States Court of Appeals for the Second Circuit's judgment in *Hachette Book Group, Inc. v. Internet Archive*, which found Internet Archive liable for copyright infringement for its CDL practices. CDL is a method by which libraries create digital copies of works that they carry in their print collections and then loan such digital copies out to patrons (similar to how they would loan out a print copy). Proponents of CDL believe that it helps provide better access to a library's collections, especially for works that are rare or out of print. Copyright holders, such as Hachette Book Group, have asserted that CDL is unauthorized copying of copyrighted works that circumvents the copyright holder's rights. As detailed further below in this article, in light of this decision, it is unclear how CDL programs will be able to function going forward (at least in the Second Circuit), which could potentially lead to diminished access to rare and out-of-print texts.

History and Six Requirements of CDL

The concept of digital lending was first theorized by Michelle Wu, the former director of the Georgetown Law Library, in her 2011 paper, *Building a Collaborative Digital Collection: A Necessary Evolution in Libraries*, in

which she referred to it as “Taking Academic Law Libraries Online.”^[2] Wu’s idea was further developed by David R. Hansen and Kyle K. Courtney in *A White Paper on Controlled Digital Lending of Library Books* (the “White Paper”), which emphasized the need for libraries to “exercise control” in the process of replicating physical lending digitally.^[3] For libraries to sufficiently exercise control, the White Paper stated that libraries should implement the following six requirements:

1. ensure that original works are acquired lawfully;
2. apply CDL only to works that are owned and not licensed;
3. limit the total number of copies in any format in circulation at any time to the number of physical copies the library lawfully owns (i.e., maintain a one-for-one “owned-to-loaned” ratio);
4. lend each digital version only to a single user at a time just as a physical copy would be loaned;
5. limit the time period for each lend to one that is analogous to physical lending; and
6. use digital rights management to prevent wholesale copying and redistribution.^[4]

Proponents of CDL asserted that these six principles keep CDL in line with copyright law based on the legal arguments detailed below.

Legal Arguments Supporting CDL

The White Paper argued that CDL is protected by (i) the first sale doctrine and (ii) the fair use doctrine.

First Sale Doctrine

The first sale doctrine is a common law doctrine that has been codified in Section 109 of the Copyright Act – it provides that the owner of a particular copy of a copyrighted work is entitled to “sell or otherwise dispose of the possession of that copy” without the authorization of the copyright holder.^[5] In other words, once the copyright holder sells a copy of a copyrighted work, his or her right to control its distribution is exhausted. This principle prevents copyright holders from exercising control over the secondary market for the work, and it allows businesses and institutions such as libraries and used record stores to function. However, Section 109 limits the rights of the owner of the copy to “sell or otherwise dispose of ... that copy,” which does not include the right to make a digital copy. Furthermore, Section 106 of the Copyright Act grants the copyright holder the exclusive right to “reproduce the copyrighted work in copies,” “prepare derivative works,” and “distribute copies ... by ... lending,”^[6] supporting the position that creating a digital copy of a work is not protected under the first sale doctrine. The White Paper acknowledged this limitation but argued that the right to digitize the copy is a question of statutory interpretation that the courts had not yet clearly answered.^[7]

Fair Use Doctrine

The White Paper relied more heavily on the fair use doctrine to support the legality of CDL. The fair use doctrine is codified in Section 107 of the Copyright Act, and it provides that “fair use of a copyrighted work ... for purposes such as criticism, comment, news reporting, teaching, scholarship, or research is not copyright infringement.”^[8] Section 107 calls for consideration of four factors in evaluating a question of fair use:

1. the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
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 upon the potential market for or value of the copyrighted work.

Analysis of the first and fourth factors is often tied together, and these two factors are seen as the most consequential in a fair use analysis. The first factor is often referred to as the “transformative” factor because courts examine how transformative the use of the work is and how much independent value the user is adding.

The White Paper contended that analysis of the first factor points in favor of fair use protection because CDL's purpose aligns closely with the statutory purpose of the first sale doctrine and its use of copyrighted works is noncommercial. The authors asserted that the purpose of Section 109 could be considered when analyzing the purpose and character of the use, and that CDL aligned with Section 109's purpose by "limit[ing] a rightsholder's ability to restrain subsequent dispositions, facilitating competition 'to the advantage of the consumer.'" ^[9] Furthermore, they argued that libraries do not engage in CDL for monetary profit, but instead to "enable broad availability of knowledge for the purpose of promoting research, scholarship, and learning," which are uses specifically mentioned as examples of fair use in Section 107. ^[10]

The White Paper minimized the importance of the second factor and acknowledged that in the analysis of the third factor, the implication is that the more content of the original work that is used, the less likely the use is to be fair. Nevertheless, it claimed that assessment of the third factor is closely tied to that of the first factor, and that the extent of copying can "var[y] with the purpose and character of the use." ^[11] Lastly, the White Paper maintained that the fourth factor weighs in favor of fair use protection because most of the works that would benefit from CDL are works from the 20th century for which there is no functioning market in place that would be harmed by CDL.

These arguments were thought to be the defining legal analysis of CDL for many years, as CDL was not legally challenged until *Hachette Book Group, Inc. v. Internet Archive*. However, in this case, both the district court and the Second Circuit came to the opposite conclusion.

Hachette Book Group, Inc. v. Internet Archive

Despite the White Paper's robust examination in favor of the fair use doctrine's applicability to CDL, the Second Circuit found that CDL did not qualify for fair use protection based on an assessment of the same four factors in *Hachette Book Group, Inc. v. Internet Archive*.

Factual Background

The Internet Archive is a nonprofit digital library that provides the public with free access to digital versions of published works, including 44 million books and texts. The Internet Archive operated its CDL program for years without running into issues, ^[12] and it maintained an owned-to-loaned ratio. However, on March 24, 2020, the Internet Archive opened its "National Emergency Library" in response to the COVID-19 pandemic, and it removed the owned-to-loaned ratio that it had previously implemented. ^[13] A group of publishers, including Hachette Book Group, sued Internet Archive on June 1, 2020, in the Southern District of New York, and Internet Archive reinstated its owned-to-loaned ratio on June 16, 2020. The publishers alleged that Internet Archive had "infringed their copyrights in 127 books," including both fiction and nonfiction books. ^[14] Notably, all 127 books were available as authorized eBooks that could be purchased by consumers or licensed to libraries.

District Court Ruling

In March 2023, the district court granted summary judgment to the publishers, and it found that for both the National Emergency Library and the Digital Archive's normal CDL owned-to-loaned practice, all four fair use factors pointed against Internet Archive. The court found that in all cases, Internet Archive's use of the books was non-transformative because Internet Archive reproduces the books "in full and its digital copies serve the same purpose as the originals." ^[15] The court also said that the second and third factors pointed against Internet Archive because the books were "close to the core of intended copyright protection" and the books were copies "wholesale." ^[16] Lastly, the district court found that Internet Archive was bringing "a competing substitute" to the marketplace for eBook licenses, meaning that all four factors pointed against a finding of fair use. ^[17] Internet Archive appealed this decision to the Second Circuit.

Second Circuit Ruling

In September 2024, the Second Circuit affirmed the district court’s ruling, finding that all four of the fair use factors favored the publishers in this case, both for the National Emergency Library and for Digital Archive’s normal CDL practice with the one-for-one owned-to-loaned ratio. The circuit court stated that Internet Archive did not add “meaningfully new or different features” to the books as they were copied in full, and therefore, its use was not transformative. ^[18] The circuit court agreed with the district court’s analysis of the second and third factors as well. In deciding the fourth factor, the circuit court noted that it balanced “the benefit the public will derive if the use is permitted [against] the personal gain the copyright owner will receive if the use is denied,” ^[19] yet it still found that Internet Archive’s use should be denied. The circuit court acknowledged that “expanding access to knowledge would, in a general sense, benefit the public,” but that argument could justify any copyright infringement. ^[20] The circuit concluded its analysis by declaring that “any short-term public benefits” of Internet Archive’s CDL program are outweighed by harm to publishers and authors who are entitled to compensation for the reproduction of their works. ^[21]

Consequences of the Judgment

The Second Circuit did not limit its decision to cases in which eBook licenses were offered for the works at issue, and it is unclear as to how far this decision reaches. This raises the question: If a publisher argues that a CDL program is infringing copyrights that it holds for books for which it is not offering eBook licenses or for out-of-print books for which new physical copies are not available, would a court’s analysis be different? This decision could incentivize publishers to make more robust eBook license offerings, which could in turn impose a significant cost on libraries wishing to make digital copies available. Furthermore, CDL has become an important method for providing access to rare and out-of-print books, many of which do not have readily available eBook licenses because publishers often do not offer such licenses for books for which there is little to no commercial market. In short, it remains to be seen how this will impact the market, but this decision will likely greatly reduce the public’s access to works through CDL.

Footnotes

- 1 FAQs, Controlled Digital Lending, <https://controlleddigitallending.org/faq/> .
- 2 Michelle M. Wu, *Building a Collaborative Digital Collection: A Necessary Evolution in Libraries*, 103 Law Libr. J. 527, 529 (2011), <https://scholarship.law.georgetown.edu/facpubl/699/> .
- 3 David R. Hansen & Kyle K. Courtney, *A White Paper on Controlled Digital Lending of Library Books*, Controlled Digital Lending, 3, <https://controlleddigitallending.org/download-statement/> .
- 4 *Id.*
- 5 See 17 U.S.C. § 109(a).
- 6 17 U.S.C. § 106(1)-(3).
- 7 David R. Hansen & Kyle K. Courtney, *A White Paper on Controlled Digital Lending of Library Books*, Controlled Digital Lending, 8, <https://controlleddigitallending.org/download-statement/> .
- 8 17 U.S.C. § 107.
- 9 David R. Hansen & Kyle K. Courtney, *A White Paper on Controlled Digital Lending of Library Books*, Controlled Digital Lending, 14, <https://controlleddigitallending.org/download-statement/> .
- 10 *Id.* at 17.
- 11 *Id.* at 22.
- 12 Hachette Book Group v. Internet Archive and the Future of Controlled Digital Lending, Penn Libraries, <https://www.library.upenn.edu/news/hachette-v-internet-archive/> .

- 13 *Hachette Book Group, Inc. v. Internet Archive*, 115 F.4th 163, 176 (2d Cir. 2024).
- 14 *Id.*
- 15 *Id.* at 177.
- 16 *Id.* at 177.
- 17 *Id.* at 177.
- 18 *Id.* at 184.
- 19 *Id.* at 189.
- 20 *Id.* at 195.
- 21 *Id.* at 196.

[The Licensing Journal, Moving Away From Open Source: Trends in Source-Available Licensing, \(Jan. 1, 2025\)](#)

Moving Away From Open Source: Trends in Source-Available Licensing

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