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The Rental Epidemic of The Twenty-First Century: A Look at How Netflix and Redbox Are Damaging The Hollywood Film Industry and How To Stop It

Ryan Sullivan
Loyola Law School Los Angeles

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THE RENTAL EPIDEMIC OF THE TWENTY-FIRST CENTURY: A LOOK AT HOW NETFLIX AND REDBOX ARE DAMAGING THE HEALTH OF THE HOLLYWOOD FILM INDUSTRY AND HOW TO STOP IT

1. INTRODUCTION

The Hollywood film industry is hurting. DVD sales, which account for up to seventy percent of a film’s profits, are slumping dramatically. This is a serious problem for the film industry because many films only start to turn a profit when people buy the DVDs. Since last year, DVD sales have fallen over thirteen percent and are expected to account for just over half of the overall film industry revenue by 2013. This will cause the

1. This Comment uses the phrase “Netflix and Redbox” to generally refer to the emerging commercial DVD rental industry. Netflix is an example of a DVD mail rental subscription service. Netflix sends the DVDs directly to the subscriber’s mailbox, and the person returns the DVD by mailing it back in a prepaid envelope. Redbox is an example of a DVD rental kiosk company, where people can rent and return a DVD from the same kiosk for a per night rental fee. Netflix and Redbox are the leaders of their respective niches in the commercial DVD rental industry. Also, this Comment will only briefly discuss Blockbuster. Blockbuster does not generally use the First Sale Doctrine to operate, because Blockbuster has negotiated revenue-sharing contracts with most movie studios.


4. John Horn, DVD Sales Figures Turn Every Film Into a Mystery, L.A. TIMES, Apr. 17, 2005, at A1 (“Even a box-office blockbuster may reach profit only when it arrives on DVD shelves because movies have become so expensive to produce and market.”); Edward Jay Epstein, Hollywood’s Profits, Demystified, SLATE, Aug. 8, 2005, http://www.slate.com/id/2124078/ (“Nowadays, in the new Hollywood, the world box office is a money loser.”).


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film industry to potentially lose billions of dollars in revenue. However, the effects are already being felt. Major studios are funding fewer movies and delaying releases for completed films, including ones that have Oscar potential. Furthermore, one former major studio is currently being forced to put itself up on the auction block. Overall, American film companies will release forty percent fewer movies between September and December this year compared to last. Consequently, there are fewer jobs available.

However, people have not stopped watching movies. Rather than buying movies, many people are renting them. In the first half of 2009, consumer spending on rentals grew over eight percent. While the Hollywood studios are suffering, Netflix and Redbox are seeing their profits flourish, growing twenty percent and 110 percent respectively in the second quarter of 2009. While the rental industry’s revenue is growing substantially, the companies that actually make the product are seeing their revenues plummet.

One of the reasons why such a perverse outcome exists is because of the First Sale Doctrine. This doctrine states that once a person buys a copyrighted item from the owner, the seller no longer has the right to prevent the buyer from reselling it, giving it away, or lending it out. Libraries, eBay, Craigslist, and many other companies use this doctrine to

13. Graser & Magiera, supra note 5.
14. Id.
16. Graser & Magiera, supra note 5.
operate their businesses.\(^{19}\) Unfortunately for the film industry, Netflix and Redbox are using this doctrine to their own commercial advantage. In some instances, Netflix and Redbox have negotiated revenue-sharing or similar types of agreements with studios.\(^{20}\) But when negotiations fail, Netflix and Redbox go to a store, buy the DVD for twenty dollars, and then rent the disc to their customers.\(^{21}\) Netflix has only reached agreements with half of the Hollywood studios,\(^{22}\) which means that a significant amount of Netflix’s discs are bought and rented under the protection of the First Sale Doctrine.\(^{23}\)

Seeing their revenues vanish, some studios are trying to stand up to Redbox\(^{24}\) and, more recently, to Netflix.\(^{25}\) Twentieth Century Fox (Fox), Warner Brothers Studios (Warner Bros.), and Universal Studios (Universal) are refusing to sell Redbox any DVDs through their wholesalers until at least twenty-eight days after the DVDs have been released to the general public (a “sales-only window”).\(^{26}\) In early 2010, Warner Bros. and Netflix came to a mutual agreement that will similarly delay the studio’s newly released DVDs from reaching Netflix customers for twenty-eight days.\(^{27}\) Other studios may soon follow suit.\(^{28}\)

However, this plan to salvage the film industry’s main revenue stream will probably not work because Netflix and Redbox can still buy a DVD at a retail store and rent it to their customers.\(^{29}\) In fact, Redbox may soon sign a deal with Best Buy, Wal-Mart, or Target to buy discounted DVDs to stock its vending machines if it cannot purchase the newly released DVDs

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19. Id.
22. King, supra note 20.
23. See generally Brilliance Audio, Inc. v. Haight’s Cross Commc’ns, 474 F.3d 365, 373 (6th Cir. 2007).
27. DiOrio, supra note 25.
29. See generally COHEN ET AL., supra note 18, at 374.
directly from the studio.30 It is hard to imagine that the First Sale Doctrine was created to allow for such a situation. Furthermore, there are inconsistent rental policies across the industry that could undermine the sales-only windows.31 If the studios’ sales-only window applies only to Redbox (like the policies implemented by Fox and Universal), people can rent the DVD from Netflix;32 if the sales-only window applies to both Netflix and Redbox (like the policy implemented by Warner Bros.), people can rent the DVD from Blockbuster.33 Absent a consistent national rental policy, people can still rent DVDs from another rental company the day it is released.34 Consequently, Congress must act to stop the commercial DVD rental business from distorting and abusing the First Sale Doctrine.

Part II of this Comment discusses the background of the First Sale Doctrine and the history of the rental industry. Part III examines the current exceptions to the First Sale Doctrine in the U.S. and the reasons why the exceptions are necessary. Part IV reviews European Copyright law, which bars a business from renting out a cinematic work without the permission of the copyright holder.35 Finally, Part V proposes an important exception to the Copyright Act barring major commercial companies from renting out DVDs unless they share the revenue with the copyright holder.


31. See Goldstein, supra note 20 (discussing how Sony and Lionsgate have agreed to sell DVDs to Redbox as soon as the DVD hits the market); King, supra note 20 (discussing how Netflix has revenue-sharing agreements with many studios, which allow them to get the DVDs as soon as the DVD is sold on the open market). Contra Goldstein, supra note 20 (discussing how some studios are waiting 28 days before they sell their DVDs to Redbox); DiOrio, supra note 25 (discussing how Warner Bros. and Netflix agreed to wait twenty-eight days after a DVD hits the market before Netflix starts renting it to its customers).

32. See Goldstein, supra note 20. The current practices by Twentieth Century Fox and Universal Studios target only Redbox. Consequently, a consumer can go to any other video rental store and rent the DVD. *Id.*

33. See DiOrio, supra note 25 (discussing how Warner Brothers and Netflix have agreed to delay new-release discs reaching Netflix for twenty-eight days).

34. See Goldstein, supra note 20; DiOrio, supra note 25.

II. BACKGROUND OF THE FIRST SALE DOCTRINE AND THE HISTORY OF
THE RENTAL INDUSTRY

A. The Creation of the First Sale Doctrine

The intellectual property clause of the U.S. Constitution allows Congress to give copyright owners limited monopolies over their work in order "[t]o promote the Progress of Science and useful Arts." By recognizing this limited but exclusive right, copyright law gives an economic incentive to people who create and disseminate ideas. The U.S. Supreme Court has held: "The economic philosophy behind the clause... is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare..." The ultimate aim is to stimulate creative works for the public good, and this is done by securing a fair return for the author's work.

However, the courts have sometimes held that in order to promote creative works for the public good, it is necessary to limit copyright holders' rights. In Bobbs-Merrill Company v. Straus, the Supreme Court heard a case that dealt with the book, "The Castaway." The publishers put a notice in the book stating that anyone reselling the book must sell it for one dollar, the same price as a new book. After buying the books from a wholesale dealer, the defendants ignored the notice and resold the book for eighty-nine cents per copy. The publishers filed suit. The Court ultimately decided that "the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose, by notice... a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract." In another case, the Court further explained its rationale:

The limited monopoly created by copyright law is needed to promote the creation of new works and ensure that the creator is properly compensated for this effort. Once a copyright holder

39. Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975).
41. Id. at 341.
42. Id. at 342.
43. Id. at 341.
44. Id.
45. Id. at 350.
has consented to distribution of a copy of that work, this monopoly is no longer needed because the owner has received the desired compensation for that copy.\textsuperscript{46} The Court’s limitation on the copyright holder’s distribution right is based on the principle that a person is entitled to only the full value—no more, no less—of the copyrighted work upon its disposition.\textsuperscript{47}

The Court’s opinion was later dubbed “The First Sale Doctrine,” and Congress codified this holding in the 1909\textsuperscript{48} and 1976 Copyright Acts.\textsuperscript{49} These acts neither expanded nor diminished the power of the doctrine.\textsuperscript{50}

\textbf{B. The History and Evolution of the Rental Industry}

Although home video technology was invented in 1956, the average consumer could not afford home video until the mid-1970s when Sony’s Betamax and JVC’s VHS were released.\textsuperscript{51} In November 1977, Fox became the first studio to provide movies on home video.\textsuperscript{52} The videos were intended for private use only, and cost $49.95.\textsuperscript{53} However, just a month later, the first video rental store was opened in West Los Angeles.\textsuperscript{54} George Atkinson bought these Fox titles for $3.00 over cost to rent them out to the community.\textsuperscript{55} To rent a video, people had to buy a membership, either $50 for an annual membership or $100 for a lifetime membership, and pay $10 per day to rent a video.\textsuperscript{56} Although it was expensive, renting videos gained in popularity and caught the attention of the movie studios.\textsuperscript{57} Atkinson was quickly threatened with a lawsuit for renting these videos to

\begin{itemize}
\item \textsuperscript{46} Brilliance Audio, Inc. v. Haight's Cross Commc'ns, 474 F.3d 365, 373 (6th Cir. 2007).
\item \textsuperscript{50} Lewson, supra note 48, at 5 (1982); 17 U.S.C. §109.
\item \textsuperscript{51} Sylvie Castonguay, 50 Years of the Video Cassette Recorder, 6 WIPO MAGAZINE, Nov. 2006, at 9.
\item \textsuperscript{53} Id.
\item \textsuperscript{54} Id.; Dennis McLellan, George Atkinson, 69; Pioneer in the Movie Video Rental Industry, L.A. TIMES, Mar. 12, 2005, at B17.
\item \textsuperscript{55} McLellan, supra note 54, at B17; History of Home Video, supra note 52.
\item \textsuperscript{56} History of Home Video, supra note 52.
\item \textsuperscript{57} Id.
\end{itemize}
the public, but it was soon determined that the video rental industry is protected under the First Sale Doctrine.58

The film industry soon saw the video rental industry as a major threat to its business.59 The President of the Motion Picture Association of America, Jack Valenti, famously stated before Congress, "I say to you that the VCR is to the American film producer and the American public as the Boston strangler is to the woman home alone."60 From 1982 to 1983, the film industry tried to push through Congress an exception to the First Sale Doctrine, which would prevent video stores from renting out movies without the copyright holder's permission.61 These efforts ultimately failed, and the video rental industry was here to stay.62

Since the studios had to find a way to stay profitable and compete with this emerging technology, they decided to come up with a "rental price" scheme in the early 1980s.63 The studio would initially release its video for a very high price—approximately $100—and the typical buyer would be a video rental business.64 Five or six months later, the price would drop to approximately twenty dollars, after which the typical buyers would be "end-users."65 The video rental industry was a huge success for the film studios.66 Within ten years of VHS and Betamax players being released to the public, combined video sales and rentals eclipsed total box office revenue.67 Shortly thereafter, video rental revenues exceeded box office receipts for the first time and continue to do so today.68

In the late 1990s, the DVD was introduced in the U.S. and became "the most rapidly adopted consumer electronics product in history."69 Beginning in 2004, people started to rent more DVDs than VHS tapes.70

A dramatic difference in the evolution between the DVD and VHS

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58. Id.
59. Castonguay, supra note 51.
60. Id.
61. History of Home Video, supra note 52.
62. Id.
64. Id.
65. Id.
66. History of Home Video, supra note 52.
67. Id. ("Rental revenue in 1986 was $3.37 billion and sales revenue that year was $1.01 billion, for a total of $4.38 billion. Theatrical box office was $3.78 billion in 1986.").
68. Id.
69. Id.
70. Id.
formats is that the linear rental pricing formula was never adopted for DVDs.\textsuperscript{71} The linear rental pricing formula was important during the VHS era because it helped recoup some of the losses when people would rent videos instead of buying them.\textsuperscript{72} However, this advantage has since dissipated because studios now release DVDs for one low price, and have not shown any signs of implementing a linear rental pricing formula.\textsuperscript{73} With DVD sales already dropping significantly, implementing such a formula could have catastrophic consequences for the film industry.\textsuperscript{74}

Today, the two most popular DVD rental services, behind only Blockbuster, are Netflix and Redbox.\textsuperscript{75} Netflix and Redbox have been around since 1998 and 2002, respectively, but their popularity has exploded during the past few years.\textsuperscript{76} Netflix is an example of a DVD mail rental subscription service.\textsuperscript{77} Netflix sends the DVDs directly to the subscriber's mailbox, and the subscriber returns the DVD by mailing it back in a prepaid envelope.\textsuperscript{78} Today, Netflix has more than ten million subscribers.\textsuperscript{79}

Redbox is an example of an automatic rental kiosk where people can rent DVDs for a daily fee.\textsuperscript{80} Each kiosk holds approximately 630 DVDs.\textsuperscript{81} Originally placed in McDonald's restaurants, Redbox kiosks today can be found in restaurants and grocery stores across the country.\textsuperscript{82} Presently, there are over 19,000 Redbox kiosks that rent out over 575 million DVDs.\textsuperscript{83}

\textsuperscript{71} PRICE DISCRIMINATION, supra note 63, at 2.
\textsuperscript{72} Id.
\textsuperscript{73} Id.
\textsuperscript{74} Grover & Kharif, supra note 3, at 38.
\textsuperscript{75} In the first quarter of 2009, Redbox's revenue was $154 million, while Netflix's revenue was $394 million. Redbox's Vending Machines Are Giving Netflix Competition, N.Y. TIMES, June 22, 2009, at B4. In the second quarter of 2009, Blockbuster's revenue from rentals was $789.2 million. Blockbuster's Loss Exceeds Forecast, N.Y. TIMES, Aug. 14, 2009, at B4.
\textsuperscript{78} Id.
\textsuperscript{79} Id. at 5.
\textsuperscript{80} History of Redbox, supra note 76, at 1.
\textsuperscript{82} History of Redbox, supra note 76, at 1.
III. EXCEPTIONS TO THE FIRST SALE DOCTRINE

A. The Record Rental Amendment of 1984

The first successful attempt to amend the First Sale Doctrine by the entertainment industry came in 1984.84 During that time, the record industry was facing a serious piracy problem.85 Instead of buying a phonorecord, people were renting music records and copying them onto blank tapes.86 While Congress debated the Record Rental Amendment, there were about 200 commercial record rental stores renting phonorecords for one dollar a day.87 Congress also noted: "Frequently, blank audio cassette tapes [were] sold in the same establishment. One such establishment advertised, 'Never, ever buy another record.'"88

The record industry proved to Congress that there was a direct link between commercial renting and the illegal copying of a record.89 The record industry convinced Congress that the "commercial record rental and duplication may directly and adversely affect the ability of copyright holders to exercise their reproduction and distribution rights under the Copyright Act."90 As a result, Congress passed the Record Rental Amendment of 1984, which generally prohibits the owner of a phonorecord from renting it for commercial advantage to the public.91 By pointing to a real and significant threat to its survival, the record industry succeeded in obtaining an exception to the First Sale Doctrine.92

It is important to note that Congress limited this exception to people who tried to obtain a direct or indirect commercial advantage by renting a phonorecord to the public.93 This exception does not prohibit the rental, lease, or lending of phonorecords by libraries that are not-for-profit.94

85. MARSHALL A. LEAFFER, UNDERSTANDING COPYRIGHT LAW 323 (Matthew Bender & Co. 4th ed. 2005).
86. Id.
88. Id.
89. Id.
90. Id.
92. LEAFFER, supra note 85, at 324.
94. LEAFFER, supra note 85, at 323.
B. The Computer Software Rental Amendments Act of 1990

Unlike the situation the record industry faced, the computer software industry effectively persuaded Congress to preemptively act against a threat to its industry. Although there was some renting of computer software, the threat of piracy and the purpose of renting computer software convinced Congress to act. Congress recognized that, unlike entertainment products such as phonorecords, software is a utilitarian product. "Short term rental of software is, under most circumstances, inconsistent with the purposes for which software is intended." For example, the Microsoft Office program is intended to be used long-term on a consistent basis, instead of being rented out every time a person needs to write a paper. Furthermore, "[r]ental of software will, most likely, encourage unauthorized copying, deprive copyright owners of a return on investment, and thereby discourage creation of new products." An organized computer software rental industry would have threatened the software industry's economic health.

Thus, Congress passed the Computer Software Rental Amendments Act of 1990, which generally bars a software owner from renting out computer software to the public for direct or indirect commercial advantage. As with the phonorecord exception, this exception does not prohibit the rental, lease, or lending of computer programs by libraries that are not-for-profit.

C. California Resale Royalty Act

Although the California Resale Royalty Act is not a true exception to the First Sale Doctrine, California passed this interesting state law that
contradicts the First Sale Doctrine's principles. The California Resale Royalty Act applies to fine art works and entitles an artist to a royalty payment of five percent upon the resale of his or her copyrighted work if the resale is for $1,000 or more.

While California is the only state that recognizes the resale royalty right, other countries do have similar laws. In fact, droit de suite, or the resale royalty right, is a European concept, which the European Union (EU) requires all members to respect.

There are several benefits to a resale royalty act. The most popular rationale is that profits from a resale give an artist added incentive to produce more works of fine art. Because creators of fine art are generally at a disadvantage compared to other authors and composers who can sell many copies of their copyrighted works, these laws help remedy this disparity by allowing a fine artist to collect multiple times from one piece of work. Also, "allowing the purchaser to reap all the benefit of the increased value of the work is a form of unjust enrichment that comes at the expense of the original artist."

Despite these benefits, the California Resale Royalty Act has been severely criticized in the U.S. and abroad. One common criticism is that it benefits too few artists and hurts the California market. Because this act only applies to sales in California or by California residents, people avoid buying art in the California art market. Also, "[i]t is clear the California Resale Royalty Act has been ignored and brushed under the carpet by all those in the California legal and art market."

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105. Id.
107. LEAFFER, supra note 85, at 328.
109. See generally Gary Pulsinelli, Harry Potter and the Re(order) of the Artists: Are We Muggles or Goblins?, 87 OR. L. REV. 1101, 1115-17 (2008).
110. Elliott C. Alderman, Resale Royalties in the United States for Fine Visual Artists: An Alien Concept, 40 J. COPYRIGHT SOC'Y U.S.A. 265, 272-73 (1992) ("One can argue that the potential for increased remuneration is a potent incentive for further creation.").
111. Pulsinelli, supra note 109, at 1115.
112. Id. at 1116.
114. LEAFFER, supra note 85, at 329.
115. Id.
because enforcement of the California law is incredibly difficult.\textsuperscript{117} The law requires the seller to withhold the royalty, find the artist, and send the artist the proceeds.\textsuperscript{118} There is no central collection agency to administer the system, so the only way to enforce the statute is through lawsuits from the artists.\textsuperscript{119} Therefore, the artists are required to follow every art sale in California to see if one of their copyrighted works was sold and then sue the gallery owners to recover any unpaid royalties.\textsuperscript{120} This makes enforcement impractical and impossible.\textsuperscript{121}

The situation is starkly different in the European Union. The EU's \textit{droit de suite} law\textsuperscript{122} has been much more successful.\textsuperscript{123} The first significant difference between the EU law and the California Law is the existence of a dedicated collection society.\textsuperscript{124} Art dealers pay the royalty directly to the dedicated collection society, and that agency enforces compliance with the law.\textsuperscript{125} The second significant difference is that, so far, the law has only applied to auctions.\textsuperscript{126} While the law technically covers most sales by art dealers, implementation and enforcement of the law has focused on auctions.\textsuperscript{127} Although not perfect, applying this law exclusively to auctions still covers a considerable amount of art sales, and makes it significantly easier to enforce.\textsuperscript{128} Payment is the responsibility of the auctioneer instead of the seller, and auctions are easier to regulate than private art sales.\textsuperscript{129}

\textit{Droit de suite} laws are important to the present discussion because these laws emphasize the viewpoint that the original copyright owner's economic and moral rights sometimes need to be recognized for the public good.\textsuperscript{130} Unlike the current First Sale Doctrine exceptions, the purpose for

\begin{itemize}
    \item \textsuperscript{118} Id.
    \item \textsuperscript{119} Eliza Hall, \textit{The French Exception: Why The Resale Royalty Works in France and Why It Matters To the U.S.}, 1 \textit{J. INT'L MEDIA & ENT. L.} 321, 331 (2007).
    \item \textsuperscript{120} Id.
    \item \textsuperscript{121} Id.
    \item \textsuperscript{123} Hall, supra note 119, at 331.
    \item \textsuperscript{124} Id.
    \item \textsuperscript{125} Id. at 332.
    \item \textsuperscript{126} Id. at 325 (noting that the EU Directive is relatively new and enforcement has been focused on auctions thus far).
    \item \textsuperscript{127} Id. at 332.
    \item \textsuperscript{128} Hall, supra note 119, at 325.
    \item \textsuperscript{129} Id. at 332.
    \item \textsuperscript{130} See Grumbo, supra note 113, at 371.
\end{itemize}
adoption of a *droit de suite* law was not to curtail the threat of art piracy.\(^{131}\) Rather, these *droit de suite* laws are designed to economically and morally promote the public good.\(^{132}\) The party that pays the additional compensation is the party who is actually profiting from the copyright owner’s work.\(^{133}\) These laws address the issue that artwork may be underproduced if the artist can only receive profits from the original sale.\(^{134}\) Without an economic incentive, significant harm can be done to the public good because there will be less creative artwork for the public to enjoy.\(^{135}\) Like the intellectual property clause in the U.S. Constitution, these incentive-based laws help promote the progress of the useful arts.\(^{136}\)

IV. THE EUROPEAN UNION’S “RENTAL RIGHT DIRECTIVE”

The European Union (EU) has passed an exception to its copyright law similar to the one this Comment will later propose.\(^{137}\) Since 1994, the EU’s “Rental Right Directive” (Directive) established the exclusive right for the copyright owner to authorize or prohibit the rental, lease, or lending of her cinematic work.\(^{138}\)

In adopting this legislation, the European community stated that there was a legitimate economic justification to recognize the right to proceeds from a rental.\(^{139}\) Additionally, with the threat of piracy, the Directive notes that rental revenues of copyrighted works play an important role in offsetting the loss of income.\(^{140}\) The Directive finally states that this law is needed to continue the economic and cultural development of the EU.\(^{141}\)

European copyright scholars have lauded the Directive.\(^{142}\) Supporters

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132. *Id.* at 324 (commenting that the purpose of a *droit de suite* law is typically to benefit starving artists and to give them a greater economic incentive to produce works of art).
133. Grumbo, *supra* note 113, at 367 (noting that it is the obligation of the seller to pay the royalty due to the copyright owner).
135. *See id.*
140. Tritton *et al.*, *supra* note 35, at 500.
142. 1 DAVID T. KEELING, INTELLECTUAL PROPERTY RIGHTS IN EU LAW 281 (Oxford 2003).
argue "that even the most devoted film buff rarely watches a film more than once or twice." 143  Supporters also note that, as in the U.S., the revenue from rentals could be the most profitable part of the market. 144 Logically, more films will be made if the copyright owners expect a reasonable return on their investment. 145 Because of this, these supporters argue that it is in everyone’s interest to allow the copyright owner to receive some money when the copyrighted work is rented. 146

Even when rental companies have to comply with the Directive, the DVD rental industry can still be sustainable and profitable. 147 LOVEFiLM, a European counterpart to Netflix, has over one million subscribers and has expanded from England to four other European countries. 148 Despite the enormous amount of money it costs to start an online DVD rental business, LOVEFiLM began to turn a profit within three years of its creation. 149

V. THE CURRENT STATE OF THE FILM INDUSTRY AND THE SOLUTION TO FIX IT

A. The Film Industry is Suffering

Unlike the early 1980s when the first attempt to pass a video rental exception to the First Sale Doctrine failed, 150 the landscape of the entertainment industry has substantially changed. 151 According to Rentrak, in the first half of 2009, U.S. consumer spending on DVDs fell 13.5%. 152

143. Id.
144. Id.; see generally Grover, supra note 2.
146. KEELING, supra note 142, at 281.
149. Ebrahimi, supra note 147.
150. See generally COHEN ET AL., supra note 18, at 372.
151. In the early 1980s, the studios feared the new technology and thought it was going to significantly harm the industry. Castonguay, supra note 51, at 9–10. Today, the movie industry has embraced the video rental market and substantially depends on it to turn a profit on many of its films. Horn, supra note 4 ("Even a box-office blockbuster may reach profit only when it arrives on DVD shelves because movies have become so expensive to produce and market."); Epstein, supra note 4 ("Nowadays, in the new Hollywood, the world box office is a money loser.").
152. Graser & Magiera, supra note 5, at 1.
Adams Media Research conservatively predicts that DVD sales will drop by 9% this year.\textsuperscript{153} A significant amount of revenue is being lost because physical home entertainment video currently accounts for 70% of film profits.\textsuperscript{154} This means that there are, potentially, billions of dollars at stake.\textsuperscript{155}

Specifically, many film studios are struggling to stay solvent or, at the very least, are delaying films in the hope that the economy will rebound.\textsuperscript{156} MGM-UA has only released one film in 2009, but faces $300 million in annual loan interest payments and a $1 billion loan payment in June 2011.\textsuperscript{157} Facing these enormous payments, MGM-UA has decided to entertain bids to buy out part or all of the company.\textsuperscript{158} Additionally, some films' release dates are being delayed, partly due to home video sales.\textsuperscript{159} According to one studio source, "[g]iven where the DVD business is in 2009, our only hope is the economy and the retail business rebounds in 2010 because the hardest hit segment has been movies that play to an older adult audience."\textsuperscript{160}

During the VHS era, the commercial video rental market was extremely profitable for the film studios industry.\textsuperscript{161} This was because the film studios had developed a linear rental pricing structure to account for the lost revenue due to video rentals, and had revenue-sharing agreements with the major rental retailers.\textsuperscript{162} However, there is no such linear rental pricing structure in place today.\textsuperscript{163} It is also more common for rental companies to not have any rental agreement with the studios and instead use the protection of the First Sale Doctrine to operate.\textsuperscript{164} At least 39% of Redbox's rental revenue comes from studios with which it does not have a

\begin{itemize}
  \item \textsuperscript{153} Grover & Kharif, \textit{supra} note 3, at 38.
  \item \textsuperscript{154} Grover, \textit{supra} note 2, at 56.
  \item \textsuperscript{156} \textit{See generally} Barnes, \textit{supra} note 8; Finke, \textit{supra} note 9.
  \item \textsuperscript{157} Barnes, \textit{supra} note 8.
  \item \textsuperscript{158} McNary, \textit{supra} note 10.
  \item \textsuperscript{159} See Finke, \textit{supra} note 9.
  \item \textsuperscript{160} Id.
  \item \textsuperscript{162} PRICE DISCRIMINATION, \textit{supra} note 63, at 2; \textit{History of Home Video, supra} note 52.
  \item \textsuperscript{163} PRICE DISCRIMINATION, \textit{supra} note 63, at 2 ("With the introduction of the DVD format, studios have almost exclusively adopted sell-through pricing . . . .").
  \item \textsuperscript{164} \textit{See generally} Ahead of the Bell, \textit{supra} note 30.
\end{itemize}
rental agreement, while Netflix’s revenue-sharing agreements roughly account for half of the company’s revenue.

Lately, Hollywood studios tried a “sell-through” model, which focuses on having the consumer buy the DVD. The downside to this model is that these DVDs are available to video rental stores for a very cheap price. In order to make up for the lost revenue due to video rentals, more people need to buy DVDs. Unfortunately for Hollywood, this is not happening now as all trends indicate that more people are opting to rent movies instead of purchasing DVDs.

Since the trend of declining DVD sales has been going on for the past five years, retail stores are starting to lose faith in the product, which will exacerbate the problem. For example, Best Buy Company and Borders Group Inc. are allocating less physical space in their stores to DVDs. In stores that had been opened for at least a year, Borders Group saw DVD sales drop 48% compared to the same period in 2008. Once comprising 23% of its sales, Borders Group now says that DVD sales represent just 8% of its sales. It will be much harder for DVD sales to rebound if there are physically fewer DVDs being sold in the stores.

During these tough economic times, more people are choosing to rent movies rather than spend more money to purchase them. “In the first half of [2009], U.S. consumer spending on DVD and Blu-ray rentals rose 8.3%.” During this time period, DVD sales fell to $5.4 billion, while rental revenue grew to $3.4 billion. In the second quarter of 2009, Redbox’s revenue grew 110%, and Netflix’s revenue grew 20%. By

165. Id.
166. King, supra note 20.
168. See generally PRICE DISCRIMINATION, supra note 63, at 2.
169. The Green Mile was originally released on VHS for $107.95 and on DVD for $24.95. Although there may be different costs in producing and shipping a VHS and DVD, the studios were making a lot more money per film sold on VHS as compared to DVD. Id.
170. Graser & Magiera, supra note 5.
171. COPLAN, supra note 167, at 2.
172. Studios Feel Pinch, supra note 7.
173. Id.
174. Id.
175. See id.
176. See generally id. (noting how retailers have lost faith in DVDs).
177. See id.; Graser & Magiera, supra note 5.
178. Graser & Magiera, supra note 5.
179. Studios Feel Pinch, supra note 7.
180. Fritz, supra note 15.
2013, an industry analyst predicted that Netflix's revenue will grow by 42% to $3.1 billion and that kiosk revenue will increase by more than 200% to $1.5 billion.\(^{181}\) In cases where the rental company does not have a rental agreement with the studio, a one-time purchase of $20 for a DVD yields a $12 per disc profit on average, not including business costs and selling the discs to consumers or wholesalers.\(^{182}\) Considering that Redbox has over 575 million DVDs in over 19,000 kiosks across the US,\(^{183}\) the profits add up very quickly for Redbox.\(^{184}\)

Mitch Lowe, CEO of Redbox, has tried to argue that "[t]he relationship between rentals and DVD sell-through remains complementary, not cannibalistic."\(^{185}\) He also claims that, "[a]ccording to customer research, a majority of Redbox renters report their typical DVD purchase is the result of having previously rented and enjoyed the title."\(^{186}\) However, these findings do not negate the fact that DVD sales are plummeting while the rental business continues to flourish.\(^{187}\) President Chase Carey of News Corp., the parent company of Fox, complained that its DVD "product rent at a dollar is grossly undervalued."\(^{188}\) Likewise, John Marmaduke points out that retailers "simply cannot give away products that cost hundreds of millions of dollars to produce. . . . Once the main product of an industry is artificially devalued, the negative economic impacts will ripple throughout the industry, impacting the workers and businesses that rely on the overall industry."\(^{189}\)

In particular, studios are having a very difficult time deciding which movies to produce because DVD sales play such an important role in the decision-making process.\(^{190}\) Just a few years ago, studios could expect

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182. David Lieberman, *Video Kiosks Have Rivals Seeing Red*, USA TODAY, Aug. 12, 2009, at 3B ("Redbox pays about $18 for a DVD and rents it about 15 times at an average of $2 per transaction. The company sells half of the used DVDs back to wholesalers for as much as $4 per disc, and sells about 3% directly to consumers for about $7. It destroys most of the rest.").
186. Id.
188. Lieberman, *supra* note 182.
DVDs to generate eighty-five cents for every dollar a film grossed at the box office. \(^{191}\) However, since 2008, this number has dropped substantially, as DVD titles have generated only seventy cents per box office dollar. \(^{192}\) Playing it safe, studios are producing a substantially smaller amount of films each year. \(^{193}\) Studios will now have to factor into their formula the likelihood that the film is going to be rented instead of purchased. \(^{194}\) Over the summer, distributors were baffled as to why “Paul Blart: Mall Cop” was selling so slowly off the shelves. \(^{195}\) Yet right around the same time, newspapers were noting how “Paul Blart: Mall Cop” was Redbox’s “record-holding rental title.” \(^{196}\) In significant numbers, people decided to rent that movie for one dollar rather than purchase it for twenty dollars. \(^{197}\)

**B. The DVD Rental Business is Being Unjustly Enriched at the Expense of the Studios**

The current landscape of the industry is perverse. \(^{198}\) The studios, which actually create the copyrighted work, are seeing their revenues vanish \(^{199}\) and are trying to come up with new strategies to stay viable as they produce fewer movies each year. \(^{200}\) However, the rental business which disseminates the copyrighted work, in many cases without fairly compensating the original copyright owner, continues to thrive and expand. \(^{201}\)

As stated earlier, the primary objective of the intellectual property clause in the U.S. Constitution is to benefit the public by promoting the production of original works, and this is done by compensating the authors. \(^{202}\) In *Fox Film Corp. v. Doval*, the Supreme Court held that “the sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors

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191. *Id.*
192. *Id.*
194. *Compare id.* (discussing how “Paul Blart: Mall Cop” did not sell as many copies as expected), *with Stross, supra* note 181 (noting how “Paul Blart: Mall Cop” was Redbox’s most popular rental).
198. *Id.*
199. *Id.*
201. *See generally Graser & Magiera, supra* note 5.
of authors." Later, in *Twentieth Century Music Corp. v. Aiken*, the Supreme Court affirmed its reasoning by stating: "Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts." The Court further explained in *Sony Corp. v. Universal City Studios, Inc.* that the First Sale Doctrine "is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.

For decades, the rental industry and the studios enjoyed a complimentary relationship; both were able to thrive and grow together. This relationship thrived because of the linear rental pricing scheme and revenue-sharing agreements that existed between the studios and rental companies. The linear rental pricing scheme enabled studios to cover the lost revenue from rentals up front by charging a very high initial price. For retail outlets like Blockbuster that did not want to pay this high price, studios entered into revenue-sharing agreements under which the studios sold the videos to the rental company at a lower price in return for a share of its revenue. In the end, the rental companies had two choices: (1) purchase the video at a high price offered to the general public; or (2) purchase the video directly from the studio’s distributor at a lower price and enter into a revenue-sharing agreement. Both options resulted in a mutually beneficial solution in which studios recovered their lost video-sale income from the video rental industry, while video rental companies benefitted from decreased video sales.

This complimentary relationship no longer exists today. There is no linear rental pricing scheme. Today, consumers are able to buy DVDs at a reasonable price as soon as the DVD becomes available on the

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203. Fox Film Corp. v. Doyal, 286 U.S. 123, 127 (1932).
204. *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975).
207. See generally Jozefowicz et al., supra note 161.
208. PRICE DISCRIMINATION, supra note 63, at 1308.
209. VERTICAL CONTRACTS, supra note 206, at 4-5.
210. Id.
211. See History of Home Video, supra note 52 (noting how both the studios and video rental stores, Blockbuster in particular, grew together and made hundreds of millions of dollars in revenue).
212. See generally Graser & Magiera, supra note 5.
213. PRICE DISCRIMINATION, supra note 63, at 1308.
market; due to price discrimination laws, rental companies can also purchase the DVD at the same price. According to market research, rental companies have two different options today than they did a decade ago: (1) purchase DVDs at the low sale price offered to the general public; or (2) purchase the DVD directly from the studio’s distributors at a slightly lower price and share the revenue with the film studios. It is no mystery why Netflix and Redbox chose to purchase DVDs at a low price instead of sharing its revenues with the studios.

Under the First Sale Doctrine, rental companies can generate a significant amount of revenue from potential DVD buyers without giving just compensation to the studios. Because the First Sale Doctrine creates this situation, it undermines the rationale of the intellectual property clause in the U.S. Constitution. Since consumers rent DVDs more frequently than they purchase them, studios are losing a significant portion of their revenue. In many instances, rental companies do not adequately compensate the studios for their diminished profits beyond the initial purchase price. Consequently, fewer films are being financed and produced. This, in turn, results in thousands of lost jobs. Furthermore, the First Sale Doctrine is stifling the creative activity of authors. Rather than incentivizing studios to generate creative works of art—which the Supreme Court has recognized “is the best way to advance public welfare”—the First Sale Doctrine is causing the studios to produce fewer films.

215. Id.
216. See King, supra note 20.
217. See Brilliance Audio, Inc. v. Haight Cross Commc’ns, 474 F.3d 365, 373 (6th Cir. 2007).
219. Ahead of the Bell, supra note 30.
220. See Graser & Magiera, supra note 5.
221. Cieply, supra note 11.
222. Lord of the Rings—New Zealand, New Zealand Tourism Guide, http://www.tourism.net.nz/lord-of-the-rings.html (noting, for example, that over 2,000 people were employed during production of the Lord of the Rings movies).
223. Video rental companies are using the First Sale Doctrine to withhold just compensation from the movie studios. Because the studios are being deprived of this revenue, they are producing fewer films. See Cieply, supra note 11.
225. Cieply, supra note 11.
C. Congress Needs to Take Action

Congress must rectify this problem, as the current situation is unsustainable. Some studios have entered into profit-sharing agreements with various rental companies, while other studios have prohibited their distributors from selling newly released DVDs to rental companies for a specified amount of time. Wanting full access to newly released DVDs, Redbox has sued the studios that are restricting its access to the distributors. This has created an uneven legal landscape where some studios receive compensation from some video rental businesses, but not from others. Because studios are not being justly compensated for all their creative works, they are producing significantly fewer movies, which, in turn, reduces the available job opportunities. The end result: the public good is suffering greatly.

Much like fine artists, film studios are no longer justly compensated for their work. Film studios rely on income from both box office receipts and DVD sales because many movies only become profitable when consumers buy the DVD. Accordingly, if DVD sales continue to plummet, film studios will produce fewer films because they will no longer be able to rely on DVD sales to make the movies profitable. Congress needs to pass a law—similar to a droit de suite law—that will promote the public good by requiring additional compensation to the copyright owner. This law will put more money in the studios’ pockets to produce movies to enjoy and less jobs available to people. See id.

226. See generally Barnes, supra note 8; Finke, supra note 9.
227. See King, supra note 20.
228. Goldstein, supra note 20.
229. See Samantha Clark & Marcy Magiera, Redbox Sues Fox on DVDs, DAILY VARIETY, Aug. 13, 2009.
230. E.g., Goldstein, supra note 20 (discussing how some studios are waiting 28 days before they sell their DVDs to Redbox); DiOrio, supra note 25 (discussing how Warner Bros. and Netflix agreed to wait 28 days after a DVD hits the market before Netflix starts renting them to their customers).
231. Cieply, supra note 11.
232. The author concludes that the public is significantly harmed because there are fewer movies to enjoy and less jobs available to people. See id.
233. Lieberman, supra note 182; Redbox Roulette, supra note 189.
234. Horn, supra note 4 (“Even a box-office blockbuster may reach profit only when it arrives on DVD shelves because movies have become so expensive to produce and market.”); Epstein, supra note 4 (“Nowadays, in the new Hollywood, the world box office is a money loser.”).
235. Ault, supra note 190.
more films, which in turn promotes the public good. Like a droit de suite law, the party that should pay the additional compensation is the party that actually profits from the copyright owner's work—the rental companies.

The current landscape of the film industry is very different than what it was in the early 1980s when the first video rental amendment failed in Congress. In the early 1980s, there were many unknowns about the emerging rental industry, particularly its potential effect on the film studios. The studios were unable to convince Congress that the rental industry would damage their business. Moreover, the film industry still had viable non-legislative options. Film studios eventually raised the initial price of a video to about $100, which made the price prohibitively high, such that only rental companies bought the video. This price increase enabled film studios to recover the lost revenue in sales that resulted from people renting movies instead of buying them.

The linear rental pricing model is an unsustainable business model today. In fact, under that model, the DVD sales business, which is already suffering greatly, could be irreparably harmed. If the studios used the same formula as they did in the early 1980s to calculate a price that accounts for lost DVD sales to rentals, the initial price for a DVD could be as high as $225. At that price, many consumers, other than

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239. See generally PRICE DISCRIMINATION, supra note 63, at 1308 (noting that in the 1980s the studios set up a linear rental pricing scheme, while the studios are now setting a low sell-thru price as soon as the DVD hits the market).
240. See generally Castonguay, supra note 51, at 9. Specifically, the MPAA was worried that this new technology would destroy the industry. Unbeknownst to it, the studios would ultimately benefit greatly from this new technology. Jozefowicz et al., supra note 161.
241. See generally COHEN ET AL., supra note 18, at 372.
242. See generally PRICE DISCRIMINATION, supra note 63, at 1310–11 (discussing the linear rental pricing option).
243. Id.
244. See generally Jozefowicz et al., supra note 161.
245. As DVD sales continue falling, consumers still do not want to pay for a DVD at the current price. Graser & Magiera, supra note 5. Also, higher prices could lead to an increase in piracy, and "a sell-through pricing strategy is aimed at discouraging piracy." PRICE DISCRIMINATION, supra note 63, at 1308.
246. Id.
video rental companies, would be unwilling to pay for a DVD.\textsuperscript{248} Furthermore, by making a creative work only available to a certain group of people—even if there were enough rental copies to satisfy everyone’s needs—this option would run afoul of the U.S. Constitution.\textsuperscript{249}

Moreover, today’s technology makes movie-pirating easy.\textsuperscript{250} A simple Google search can help any novice find a movie online within seconds.\textsuperscript{251} Nevertheless, film piracy has not crippled the industry.\textsuperscript{252} When consumers are given a choice between content provided by the studio and pirated content, most people prefer the legitimate studio option.\textsuperscript{253} For example, Hulu, a joint online venture between several Hollywood studios, streams television shows and movies.\textsuperscript{254} This online service became enormously popular and successful because the available content was free and high quality.\textsuperscript{255} The only inconvenience viewers experience is the occasional commercial break, which most people do not mind.\textsuperscript{256} Compared to the poor quality of bootleg films, consumers choose higher quality, legal content available at Hulu.\textsuperscript{257}

However, if a linear rental pricing formula is reintroduced, many significant problems can arise.\textsuperscript{258} Under a linear rental pricing scheme, the consumer will have the following choices: (1) purchase an overpriced DVD; (2) wait for the film to become available through a rental company (which can be a while if demand is high); or (3) watch a lower quality, bootleg version of the film online for free. If these were the options available to consumers, it is not a stretch to assume that more people would

\textsuperscript{248} If a significant amount of people are unwilling to pay for a DVD at the current price, it would only be logical that the same amount of people, if not more, would be unwilling to pay for DVDs at a higher price. See Graser & Magiera, \textit{supra} note 5.

\textsuperscript{249} \textit{See generally} Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975); U.S. CONST. art. I, § 8, cl. 8.


\textsuperscript{251} For example, a person can go to Google and type in a search with the words “Avatar” “online” “movie” and “free” and several sites appear that a person can either download the movie or watch the movie streaming online.


\textsuperscript{253} Id.

\textsuperscript{254} Hulu, About, http://www.hulu.com/about (last visited April 4, 2010).


\textsuperscript{256} \textit{See generally} \textit{id}.

\textsuperscript{257} Id.; Drawbaugh, \textit{supra} note 252.

\textsuperscript{258} As previously noted, the threat of piracy always looms in the background. \textit{See generally} PRICE DISCRIMINATION, \textit{supra} note 63, at 1308.
pirate films, which in turn could create a deadly piracy problem for the studios. 259

The situation the film industry now faces is similar to that which the computer software industry faced in the 1990s. 260 Due to the First Sale Doctrine, film studios are producing fewer movies. 261 In order to produce more movies, the studios will have to raise DVD prices to account for the revenue lost to rentals. 262 However, due to the likely exponential increase in piracy, even if the studios wanted to raise DVD prices, they would be unable to do so. 263 This is exactly like the situation Congress tried to prevent when it passed the Computer Software Rental Amendments Act. 264 This option would "encourage unauthorized copying, depriv[ing] copyright owners of a return on [their] investment, and thereby discourag[ing] creation of new products." 265

Without congressional action, the film industry only has a few options available. 266 The film studios can maintain the status quo and allow DVD rental companies—that do not enter into revenue-sharing agreements—to siphon off their profits without justly compensating the studios. 267 This option will result in studios producing fewer movies, which is already occurring. 268 Some studios are trying to prevent rental companies from obtaining copies of their movies, 269 thereby spurring lawsuits from the DVD rental industry. 270 However, the First Sale Doctrine prevents the studios from putting restrictions on how the consumer uses the DVD once that DVD is purchased. 271 Further yet, the film studios can raise the initial DVD price to an exceptionally high price to account for lost sales replaced

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259. See generally id.
260. See generally LEAFFER, supra note 85, at 324.
261. Cieply, supra note 11.
262. By increasing the price of a DVD and going back to the linear rental pricing system in place during the 1990s, studios would be able to partially recover losses due to video rentals. See PRICE DISCRIMINATION, supra note 63, at 1308.
263. See id.
264. LEAFFER, supra note 85, at 324.
266. Many studios are not yet sure how exactly they are going to handle the current situation. Lieberman, supra note 182.
267. Id.; Redbox Roulette, supra note 189.
268. Cieply, supra note 11.
269. Goldstein, supra note 20.
270. Clark & Magiera, supra note 229.
by rentals. As explained, this could cause an exponential increase in piracy.

D. Proposal: The Film Rental Exception

Congress should pass a film rental exception to the First Sale Doctrine. Under this proposal, a company would be barred from renting out a DVD for direct or indirect commercial advantage without compensating the copyright owner. This exception would mirror the EU’s regulation; however, this model should be modified to adapt to the current situation confronting the U.S. film industry.

In order to best promote the sciences and useful arts, this proposed law should not be exactly like Europe’s Rental Right Directive, which bans video rentals without the copyright owner’s permission. Instead, this exception should generally ban video rentals that fail to justly compensate the original copyright owner. This suggestion closely mirrors California’s Resale Royalty Act, which allows the transactions to proceed as long as the original copyright owner is appropriately compensated. During congressional hearings on this exception, Congress should determine what just compensation for the studios would be. It could be set at five percent of the total revenue of the product, as with the California Resale Royalty Act, or some other percentage that Congress deems appropriate.

The film studios are being hurt financially—many by major rental companies, such as Netflix and Redbox, with whom they do not have a rental agreement in place. However, the studios that do have rental

272. This option would be similar to the one the film industry had in place during the 1990’s. PRICE DISCRIMINATION, supra note 63, at 1308.

273. Id. at 1309.


275. The situation between Europe’s landscape in late 1999 and the US landscape in 2010 is starkly different. Most notably, Redbox and Netflix have become established businesses, which should neither be shut down nor at the mercy of the studios until a revenue-sharing agreement is negotiated. See History of Redbox, supra note 76, at 1; Netflix Press Kit, supra note 77, at 2.


277. Otherwise, Netflix and Redbox would have to shut down operations until they negotiated an agreement with the studios. This proposal allows Netflix and Redbox to stay in business, while ensuring the studios receive just compensation.

278. California Arts Council, supra note 106.

279. Id.

280. Netflix and Redbox have millions of customers and earn millions of dollars in revenue compared to local mom and pop shops that lack the requisite nationwide customer base. See
agreements with these companies are seeing economic advantages. In fact, some of these revenue-sharing agreements are netting hundreds of millions of dollars in revenue for the studios. Without these agreements in place, the rental companies would logically hold onto this revenue. Because the problem lies in the absence of a revenue-sharing agreement, the law should honor all agreements between the studios and rental companies. This law should create a default, minimal plan in place, unless the two parties can come to an agreement.

The law should also set a minimum amount of revenue that the rental company has to generate before it is governed by this new law. The purpose of this provision would be two-fold. First, it would make the law easier to enforce by limiting the number of parties to identify. Second, it would promote the public good by creating a greater economic incentive to film studios to produce more movies, thus increasing the availability of films. In turn, it would likely create more job opportunities. Larger rental companies are better suited to compensate the studios because these rental companies can spread the higher costs over a wider base of customers, thus minimizing the cost increases. However, if this law is to be applied to every business, small rental shops may be forced to increase prices possibly to a point that most consumers would be unwilling to pay. These small businesses may have to close down, because consumers would likely resort to a cheaper option, such as Netflix or Redbox. This would not benefit the public good and would go against what this constitutional clause seeks to accomplish.

History of Redbox, supra note 76, at 1; Netflix Press Kit, supra note 77, at 2.

281. Goldstein, supra note 20.

282. Id.


284. By having fewer companies to expect payment from, the studios can easily check from a short list whether a rental company has paid them or not. One of the reasons why the EU’s droit de suite law has been very effective is that it only applies to auctions. All the energy that it takes to enforce the law is thus focused on one manageable area. Hall, supra note 119, at 331.

285. See generally Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975) (discussing that stimulating creative works is done by securing a fair return for the author’s work).


287. See e.g., id.

288. See generally id.

289. U.S. CONST. art. I, § 8, cl. 8 ("To promote the Progress of Science and useful
VI. CONCLUSION

The film industry is at a crucial pass. Studios may potentially lose billions of dollars due to slumping DVD sales.\(^{290}\) Furthermore, studios are producing fewer movies.\(^{291}\) The film industry is trying to correct the situation itself, but it simply cannot.\(^{292}\) The film industry cannot charge one price to an individual consumer and a higher price to a business because the practice would violate price discrimination laws.\(^{293}\) It would be unreasonable to charge a higher initial price for DVDs because it would likely have fatal consequences to DVD sales and encourage people to obtain the copyrighted work through other means, such as piracy.\(^{294}\) Preventing the studios’ distributors from selling DVDs to the rental industry would only minimally affect the current situation because the rental industry could still purchase the exact same product from a local Wal-Mart or Best Buy.\(^{295}\) Furthermore, the rental industry would likely sue the studios that try to prevent it from purchasing those DVDs.\(^{296}\)

The rental industry is abusing the First Sale Doctrine as technology advances.\(^{297}\) Rental companies profit from the film industry’s product,\(^{298}\) which contributes to the film industry’s financial problems.\(^{299}\) As a result, the studios produce fewer creative works.\(^{300}\) The film industry depends on the revenue generated from DVD sales to create more jobs by producing

\(^{290.}\) Studios Feel Pinch, supra note 7.

\(^{291.}\) Cieply, supra note 11.

\(^{292.}\) See generally Goldstein, supra note 20; DiOrio, supra note 25, at 1.

\(^{293.}\) VERTICAL CONTRACTS, supra note 206, at 5.

\(^{294.}\) DVD sales are falling and people already do not want to pay for a DVD, at the current price. Graser & Magiera, supra note 5. Also, higher prices could lead to an increase in piracy, and “a sell-through pricing strategy is aimed at discouraging piracy.” PRICE DISCRIMINATION, supra note 63, at 1309.

\(^{295.}\) Ahead of the Bell, supra note 30. Recently, Wal-Mart and Target limited the amount of DVDs a customer can buy at anytime, which makes it harder for Redbox to stock up on DVDs by purchasing them at a retail store. However, it is not impossible because the employee can just go to a store that does not have such a policy, like Best Buy, or return to the store several times throughout the day and buy the maximum amount of DVDs allowed. Kharif, supra note 271.

\(^{296.}\) Clark & Magiera, supra note 229.

\(^{297.}\) The First Sale Doctrine is being used by the video rental companies to withhold just compensation from the movie studios. Because the studios are being deprived of this revenue, they are producing fewer films. See generally Ahead of the Bell, supra note 30; Graser & Magiera, supra note 5, at 1; Cieply, supra note 11.

\(^{298.}\) Graser & Magiera, supra note 5.

\(^{299.}\) Id.

\(^{300.}\) Cieply, supra note 11.
more films. The First Sale Doctrine, originally created to limit the author from getting more than what she deserves, now causes the film industry to receive less than it deserves. Worse still, this current application of the First Sale Doctrine directly conflicts with the intellectual property clause of the U.S. Constitution. Rather than stimulating the creative arts, it is indirectly causing the film studios to release fewer films. In order "[t]o promote the Progress of Science and useful Arts," Congress must take action and pass a film rental exception to the First Sale Doctrine.

Ryan Sullivan

301. Horn, supra note 4 ("Even a box-office blockbuster may reach profit only when it arrives on DVD shelves because movies have become so expensive to produce and market."); Epstein, supra note 4 ("Nowadays, in the new Hollywood, the world box office is a money loser.").


303. See Lieberman, supra note 182.

304. See generally Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975); U.S. CONST. art. I, § 8, cl. 8.

305. Cieply, supra note 11.


* J.D. Candidate, Loyola Law School, Los Angeles, 2011; B.A., The George Washington University, 2008. I would like to thank Professor Aaron Caplan for his incredible comments and revisions, and Chief Production Editor Sharoni Finkelstein for working tirelessly on this Comment. Additionally, I would like to thank the members of the Loyola of Los Angeles Entertainment Law Review, especially Ryan Mowry. Finally, I would like to thank Paul Marmaro, Stanley Addison Freeman, and Michael Salad for being continuous sources of inspiration.