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NOTE

THE MERGING OF BLACK AND GRAY: INTERNATIONAL COPYRIGHT INFRINGEMENT IN THE POST-KIRTSAENG ERA

I. INTRODUCTION

In the global age of the Internet, consumer transactions—both legal and illegal—have grown tremendously.¹ Consider the market for buying and selling used textbooks online: college students in the United States spend, on average, over \$1000 on textbooks and school supplies each year.² Many students, often faced with student loans and other expenses, prefer to purchase their textbooks online—even in less-than-perfect condition³—in order to take advantage of the cheaper prices.⁴ Imagine that a student purchases a textbook online that was reproduced abroad⁵—without the copyright owner’s consent—but that generally resembles the textbooks printed and sold by the licensed publishing company in the

1. See Olivia M. Fleming, Note, *Oh La, La! How Will the Polarized Decisions of the United States and France Regarding the Responsibility for Policing Trademarks on Online Auction Sites Be Synthesized?*, 20 IND. INT’L & COMP. L. REV. 313, 317-18 (2010).

2. See Melissa Goldberg, Note, *A Textbook Dilemma: Should the First Sale Doctrine Provide a Valid Defense for Foreign-Made Goods?*, 80 FORDHAM L. REV. 3057, 3067 (2012); Janet Novack, *Should College Students Be Forced to Buy E-Books?*, FORBES (May 18, 2012, 12:13 PM), <http://www.forbes.com/sites/janetnovack/2012/05/18/should-college-students-be-forced-to-buy-e-books>.

3. See Terence Keegan, Comment, *John Wiley & Sons, Inc. v. Kirtsaeng*, 57 N.Y.L. SCH. L. REV. 185, 189 (2013); Michael Stockalper, Case Note and Comment, *Is There a Foreign “Right” of Price Discrimination Under United States Copyright Law?: An Examination of the First-Sale Doctrine as Applied to Gray-Market Goods*, 20 DEPAUL J. ART TECH. & INTELL. PROP. L. 513, 534 (2010).

4. Keegan, *supra* note 3, at 186 (“[S]tudents now purchase approximately 25% of all their textbooks from the secondary market of online sources As a result, the secondary market for college textbooks is flourishing: used copies account for 37% of all retail textbook sales”); Thomas Searce, *More Students Purchase Books Online*, TIMES-DELPIC (Aug. 29, 2013, 6:10 AM), <http://timesdelphic.com/2013/08/29/more-students-purchase-books-online>; Eric Weil, *How Students Really Buy Textbooks*, N.Y. TIMES, July 29, 2010, <http://www.nytimes.com/roomfordebate/2010/7/25/the-real-cost-of-college-textbooks/how-students-really-buy-textbooks>.

5. See Goldberg, *supra* note 2, at 3067. The prices of textbooks produced in the United States are about fifty percent higher than the international version. *Id.*

United States.⁶ It is possible, but not certain, that the textbook will be intercepted once it reaches the U.S. border as a result of anti-infringement measures currently in place that protect intellectual property (“IP”) rights owners.⁷ Now, take this example one step further: suppose that another student orders the same textbook online, except that this textbook originates from the subsidiary of the publishing company that is authorized by the copyright owner to manufacture a foreign version of the textbook abroad.⁸ Both scenarios involve the online sale of a foreign-made textbook to a U.S.-based consumer;⁹ however, the first transaction is illegal, while the second one is not.¹⁰ Thus, IP rights regulators are faced with the challenge of distinguishing between legal and illegal foreign-made imports that are sold and delivered through the same channels.¹¹

The second scenario illustrates the facts of the March 2013 Supreme Court case, *Kirtsaeng v. John Wiley & Sons, Inc.*¹² In *Kirtsaeng*, the Court ruled in favor of a student-run business involving the sale of imported foreign-made textbooks to customers located in the United States through popular secondary market websites, such as eBay, Inc. (“eBay”).¹³ The Court ruled that copies of copyrighted goods authorized to be made and sold abroad, which are subsequently imported into the United States without permission from the copyright owner—otherwise known as “gray market” goods¹⁴—are legal.¹⁵

6. See Pier Luigi Roncaglia, *Handling of Counterfeit Goods: A Hands-On Problem for the Italian Criminal System*, 92 TRADEMARK REP. 1393, 1415 (2002) (explaining that in some scenarios, counterfeit goods are of similar quality to genuine goods, and are distributed by comparable means).

7. See Keith M. Stolte, Note, *If It Walks Like a Duck: A Proposal to Unify U.S. Customs' Treatment of Infringing Imports*, 29 J. MARSHALL L. REV. 711, 730-31, 740-41 (1996).

8. See *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1356 (2013); Daniel Ilan et al., *Supreme Court Finds “First Sale” Copyright Doctrine Applies to Copies Lawfully Made and First Sold Abroad*, INTELL. PROP. & TECH. L.J., June 2013, at 7, 7; Leading Case, *Copyright Act of 1976—First Sale Doctrine—Kirtsaeng v. John Wiley & Sons, Inc.*, 127 HARV. L. REV. 348, 349 (2013) [hereinafter *Leading Case*].

9. See *supra* text accompanying notes 5-8.

10. See *Kirtsaeng*, 133 S. Ct. at 1370-71; Ilan et al., *supra* note 8, at 8.

11. See Timothy R. Cahn & Joshua R. Floum, Essay, *Applying the Safe Distance Rule in Counterfeiting Cases: A Call for the Use of Broad Equitable Power to Prevent Black and Gray Marketeering*, 8 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 487, 499 (1998).

12. 133 S. Ct. 1351 (2013).

13. *Id.* at 1356, 1370-71; see *Leading Case*, *supra* note 8, at 349-52.

14. See Joseph Karl Grant, *The Graying of the American Manufacturing Economy: Gray Markets, Parallel Importation, and a Tort Law Approach*, 88 OR. L. REV. 1139, 1145-46 (2009) (discussing three circumstances in which the gray market occurs); Goldberg, *supra* note 2, at 3066 (“Gray market goods are genuine goods bearing a U.S. copyright . . . that are manufactured and meant to be sold in foreign countries, but are sold in the United States without the copyright holder’s authorization.”).

The legality of gray market goods, especially in the realm of online secondary markets, thwarts the efforts of various parties to prevent the sale of “black market” goods.¹⁶ The commingling of gray market and black market goods secondary market websites facilitates the ease with which counterfeiters may import illegal goods into the United States under the guise of gray market goods.¹⁷ Consequently, IP rights owners will be less protected from copyright infringement,¹⁸ and entities that share the responsibility of protecting such rights may be subject to secondary liability for IP infringement.¹⁹

Therefore, an effective method of regulation must be established to adequately protect IP rights owners from such deceptive practices, while simultaneously shielding online secondary market operators from secondary liability lawsuits.²⁰ Part II of this Note will provide background information on the “first sale” doctrine²¹ and briefly summarize the *Kirtsaeng* decision.²² Part II will further discuss the anti-infringement measures implemented by online secondary market operators,²³ responsibilities of U.S. Customs and Border Protection (“CBP”),²⁴ and current legislation regulating online “service providers”

15. *Kirtsaeng*, 133 S. Ct. at 1358, 1370-71; see Ilan et al., *supra* note 8, at 8 (explaining that, following the *Kirtsaeng* decision, U.S. copyright law no longer protects copyrighted goods manufactured abroad from being imported and resold in the United States); Leading Case, *supra* note 8, at 351.

16. See Cahn & Floum, *supra* note 11, at 499. “Black market” goods are defined as counterfeit or imitation goods that are manufactured illegally. See James M. Sellers, *The Black Market and Intellectual Property: A Potential Sherman Act Section Two Antitrust Defense?*, 14 ALB. L.J. SCI. & TECH. 583, 594 (2004) (describing the three major categories of piracy in the black market). International counterfeiting schemes have been recognized as a serious global challenge. UNITED NATIONS OFFICE ON DRUGS & CRIME, COUNTERFEIT PRODUCTS 173 (2010) [hereinafter COUNTERFEIT PRODUCTS], available at http://www.unodc.org/documents/data-and-analysis/tocta/8.Counterfeit_products.pdf. Though it is difficult to measure the precise extent of worldwide counterfeiting, it is estimated that between two to seven percent of internationally traded goods are counterfeit. *Id.*

17. See Cahn & Floum, *supra* note 11, at 499; Shashank Upadhye, *Rewriting the Lanham Trademark Act to Prohibit the Importation of All Gray Market Goods*, 20 SETON HALL LEGIS. J. 59, 95 (1996); Christopher A. Mohr, Comment, *Gray Market Goods and Copyright Law: An End Run Around Kmart v. Cartier*, 45 CATH. U. L. REV. 561, 571 & n.52 (1996).

18. See Fleming, *supra* note 1, at 321-22 (articulating the problems that IP rights owners face in recognizing a counterfeit product sold online, and uncovering the identity of the responsible party).

19. See Elizabeth K. Levin, Note, *A Safe Harbor for Trademark: Reevaluating Secondary Trademark Liability After Tiffany v. eBay*, 24 BERKELEY TECH. L.J., 2009, at 491, 495-96, 498-500 (describing the vulnerability of secondary market websites to claims of indirect infringement).

20. See *infra* Part IV.

21. See *infra* Part II.A.1.

22. See *infra* Part II.A.2.

23. See *infra* Part II.B.1.

24. See *infra* Part II.B.2.

(“OSP(s)”).²⁵ Part III will address the aftermath of the *Kirtsaeng* decision, including the difficulty of protecting IP rights owners when both black market and gray market goods are entering the U.S. market from abroad.²⁶ Part III will also examine the challenge faced by secondary market websites of maintaining profit-maximizing business strategies,²⁷ while ensuring their own protection from secondary liability lawsuits.²⁸ Part IV will propose a cooperative information sharing system²⁹ that offers immunity to secondary market websites from secondary liability lawsuits,³⁰ as well as financial incentive,³¹ conditioned upon certain outlined responsibilities.³²

II. COPYRIGHT PROTECTION FOR GOODS SOLD INTERNATIONALLY ON SECONDARY MARKET WEBSITES

The Copyright Clause of the U.S. Constitution empowers Congress to enact statutes that “promote the Progress of Science and useful Arts, by securing for limited Times to Authors . . . the exclusive Right to their . . . Writings”³³ Accordingly, the Copyright Act of 1976 (“Copyright Act”) sets forth in § 106(3) a copyright owner’s exclusive right to distribute copies of his copyrighted work to the public “by sale or other transfer of ownership, or by rental, lease or lending.”³⁴ Novels, movies, songs, and other original works of authorship are automatically copyrightable as soon as the work is created and fixed in a “tangible medium of expression,” whether published or unpublished.³⁵ If a copy of the work is acquired abroad, § 602(a)(1) prohibits importation of that work into the United States without the copyright owner’s permission.³⁶ However, there are various exceptions to the exclusive rights allocated to copyright owners under § 106(3).³⁷

One limitation is the “first sale” doctrine of § 109(a), which provides that a copyright owner’s distribution rights to his work have

25. See *infra* Part II.C.

26. See *infra* Part III.A.

27. See *infra* Part III.B.1.

28. See *infra* Part III.B.2.

29. See *infra* Part IV.B.2.

30. See *infra* Part IV.A.

31. See *infra* Part IV.C.

32. See *infra* Part IV.B.1.

33. U.S. CONST. art. I, § 8, cl. 8.

34. 17 U.S.C. § 106(3) (2012).

35. See *Copyright in General*, U.S. COPYRIGHT OFF., <http://www.copyright.gov/help/faq/faq-general.html#what> (last visited Nov. 23, 2014).

36. 17 U.S.C. § 602(a)(1) (2012).

37. 17 U.S.C. §§ 107–122 (2012).

been “exhausted” following the first lawful sale of the copyrighted work, thereby allowing others to subsequently resell, rent, give away, or destroy the duplicates of the work without the authorization from the copyright owner.³⁸ Thus, the first sale doctrine gives consumers the opportunity to “purchase a copy of the work at a price lower than that charged by the copyright owner or by the initial retailer, who generally passes along the copyright owner’s price as well as the retailer’s mark-up.”³⁹

Courts have been confronted with the question of whether the various exceptions to § 106(3)—including, most importantly, the first sale doctrine—apply to § 602(a)(1), as well.⁴⁰ Subpart A addresses the common law history of the first sale doctrine,⁴¹ and the establishment of international copyright exhaustion in the *Kirtsaeng* decision.⁴² Subpart B describes the anti-infringement tactics currently used by eBay, one of the largest secondary market websites,⁴³ and CBP, a governmental organization charged with confiscating illegal imports.⁴⁴ Subpart C discusses Congress’s enactment of legislation, which protects entities that fall within the scope of an OSP from liability for copyright infringement if they satisfy certain minimal requirements.⁴⁵

A. Evolution of International Copyright Exhaustion

Common law interpretations of the first sale doctrine, prior to *Kirtsaeng*, precluded the unauthorized importation of foreign-made products.⁴⁶ Thus, the Supreme Court’s decision in *Kirtsaeng* represented

38. § 109(a); see Mitchell Ashkenaz, Casenote, *Intellectual Property Law – Copyright Law – Applicability of “First Sale” Doctrine to Copies of Copyrighted Works Lawfully Produced Abroad*, 81 TENN. L. REV. 187, 191 (2013); *Supreme Court Establishes International Copyright Exhaustion*, NUTTER MCCLENNEN & FISH LLP (May 22, 2013), <http://www.nutter.com/Supreme-Court-Establishes-International-Copyright-Exhaustion-05-22-2013/#.Umh735Tk-Fc>.

39. R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. REV. 577, 586 (2003).

40. See Ashkenaz, *supra* note 38, at 207; Sarah Jeong, *Supreme Court Holds the First Sale Doctrine Applicable to Parallel Importation*, JOLT DIGEST (Mar. 30, 2013), <http://jolt.law.harvard.edu/digest/copyright/supreme-court-holds-the-first-sale-doctrine-applicable-to-parallel-importation>; *infra* Part II.A.

41. See *infra* Part II.A.1.

42. See *infra* Part II.A.2.

43. *Who We Are: One Company*, EBAY, http://www.ebayinc.com/who_we_are/one_company (last visited Nov. 23, 2014); see *infra* Part II.B.1.

44. See *infra* Part II.B.2.

45. 17 U.S.C. § 512(k)(1)(B) (2012); see *infra* Part II.C.

46. See Lothar Determenn et al., *International First Sales and Imports Under U.S. and European IP Laws*, BLOOMBERG BNA (July 16, 2013), <http://about.bloomberglaw.com/practitioner-contributions/international-first-sales-and-imports-under-u-s-and-european-ip-laws>.

a remarkable shift in U.S. copyright law.⁴⁷ The ruling acknowledged the applicability of the first sale doctrine to § 602(a)(1), thereby establishing international copyright exhaustion.⁴⁸

1. Prior Application of the First Sale Doctrine

The Supreme Court applied the first sale doctrine for the first time in *Bobbs-Merrill Co. v. Straus*,⁴⁹ finding that copyright law did not give copyright owners the right “to control all future retail sales” after the first sale of the work.⁵⁰ However, this decision only established the first sale doctrine in the context of a domestically produced and sold book.⁵¹ The Third Circuit, in *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.*,⁵² expressed uncertainty in precluding copies manufactured or sold abroad from the scope of the first sale doctrine, admitting that it did not “fit comfortably” within the scheme of the Copyright Act.⁵³ Without directly addressing the issue, the Third Circuit held that the first sale doctrine was applicable to products that were manufactured in the United States, sold abroad, and afterwards reimported into the United States.⁵⁴ In *Denbicare U.S.A. Inc. v. Toys “R” Us, Inc.*,⁵⁵ the Ninth Circuit

47. See Andrew Albanese, *What Does Kirtsaeng v. Wiley Mean for the Industry?*, PUBLISHERS WKLY. (Mar. 23, 2013), <http://www.publishersweekly.com/pw/by-topic/industry-news/publisher-news/article/56491-a-textbook-case.html>; Determenn, *supra* note 46.

48. *Kirtsaeng v. John Wiley & Sons Inc.*, 133 S. Ct. 1351, 1370-71 (2013); see Diepiriye A. Anga, *Intellectual Property Without Borders? The Effect of Copyright Exhaustion on Global Commerce*, 10 BYU INT'L L. & MGMT. REV. 53, 58 (2014).

49. 210 U.S. 339 (1908).

50. *Id.* at 350-51; see Tara Athy, Note, *The Dilemma of the First Sale Doctrine in the Context of Foreign-Manufactured Goods*, 5 CREIGHTON INT'L & COMP. L.J. 88, 89 (2013).

51. *Bobbs-Merrill Co.*, 210 U.S. at 342, 346, 350-51; see Aaron Perzanowski & Jason Schultz, *Digital Exhaustion*, 58 UCLA L. REV. 889, 909 (2011) (describing the *Bobbs-Merrill* decision as setting the stage for the codification and interpretation of the first sale doctrine that has prevailed even a century later in current copyright law); Ryan Vacca, *Expanding Preferential Treatment Under the Record Rental Amendment Beyond the Music Industry*, 11 LEWIS & CLARK L. REV. 605, 610 (2007) (“*Bobbs-Merrill* lays a strong foundation for the historical discussion of the first sale doctrine.”); Benjamin Hamborg, Comment, *John Wiley & Sons, Inc. v. Kirtsaeng: The Uncertain Future of the First-Sale Doctrine*, 13 MINN. J.L. SCI. & TECH. 899, 902 (2012) (explaining that one year following the *Bobbs-Merrill* decision, the first sale doctrine was codified in the Copyright Act of 1909, and was later recodified in the Copyright Act of 1976, which establishes the modern form of the doctrine).

52. 847 F.2d 1093 (3d Cir. 1988).

53. *Id.* at 1098 & n.1.

54. *Id.* at 1098-99; Daniela Alvarado, Note, *Seamaster-ing the First Sale Doctrine: A Tripartite Framework for Navigating the Applicability of Section 109(a) to Gray Market Goods*, 22 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 885, 898-99 (2012) (comparing the Third Circuit’s ruling in *Sebastian International* with the Ninth Circuit’s interpretation of the first sale doctrine in *L’anza Research Int’l, Inc. v. Quality King Distribs., Inc.*, 98 F.3d 1109, 1114, 1117-18 (9th Cir. 1996), *rev’d*, 523 U.S. 135 (1998)); see Ashkenaz, *supra* note 38, at 194 (summarizing the Third Circuit’s application of the first sale doctrine).

55. 84 F.3d 1143 (9th Cir. 1996).

concluded that the first sale doctrine extends to a copy lawfully made outside of the United States, as long as the good was initially sold in the United States with the copyright owner's permission.⁵⁶ The Supreme Court stepped in to clarify the first sale standard, ruling in *Quality King Distributors, Inc. v. L'anza Research International, Inc.*⁵⁷ that the first sale doctrine could defeat a § 602(a) bar on the unauthorized importation of goods into the United States.⁵⁸ However, the Court only considered a copy of the work that was initially manufactured in the United States, sold abroad, and subsequently imported back into the United States.⁵⁹ Most recently, in *Costco Wholesale Corp. v. Omega, S.A.*,⁶⁰ the Supreme Court was faced with the issue of whether the first sale doctrine applies to goods manufactured abroad and then imported and sold in the United States.⁶¹ However, the equally divided Court did not establish a nationwide precedent on the legality of gray market goods,⁶² and instead left in tact the Ninth Circuit's earlier ruling that did not extend the first sale doctrine to foreign-made goods imported and resold in the United States.⁶³

2. The Kirtsaeng Standard: Establishment of International Copyright Exhaustion

In *Kirtsaeng*, John Wiley & Sons, Inc. ("John Wiley"), an academic textbook publisher, assigned to its foreign subsidiary in Asia the right to publish English-language editions of its textbooks.⁶⁴ The foreign edition

56. *Id.* at 1149-50; see John A. Rothchild, *Exhausting Extraterritoriality*, 51 SANTA CLARA L. REV. 1187, 1220 (2011); Hamborg, *supra* note 51, at 906-07 (demonstrating the conflicting rulings of the Ninth Circuit and the Third Circuit, which required the Supreme Court to address the discrepancy).

57. 523 U.S. 135 (1998).

58. *Id.* at 146-49; see Samuel Brooks, Note, *Battling Gray Markets Through Copyright Law: Omega, S.A. v. Costco Wholesale Corporation*, 2010 BYU L. REV. 19, 25 (2010) ("The major doctrinal development from *Quality King* was its conclusive rejection of the idea that application of § 109(a) to any unauthorized importation of lawfully made copies would render § 602 meaningless.").

59. *Quality King Distribs., Inc.*, 523 U.S. at 139.

60. 131 S. Ct. 565 (2010) (per curiam).

61. *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 983-85 (9th Cir. 2008); see Brooks, *supra* note 58, at 26 & n.51.

62. *Costco Wholesale Corp.*, 131 S. Ct. at 565; see *What You Need to Know About Kirtsaeng v. Wiley*, CHRON. HIGHER EDUC., <http://chronicle.com/article/A-5-Minute-Guide-to-Kirtsaeng/135442/#id=overview> (last visited Nov. 23, 2014).

63. *Omega S.A.*, 541 F.3d at 988-90, *aff'd*, 131 S. Ct. 565 (2010) (per curiam) ("In summary, our general rule that § 109(a) refers 'only to copies legally made . . . in the United States,' is not clearly irreconcilable with *Quality King*, and, therefore, remains binding precedent." (citation omitted)); see Brooks, *supra* note 58, at 27; *What You Need to Know About Kirtsaeng v. Wiley*, *supra* note 62.

64. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1356 (2013).

textbook in this case included an explanatory notation that the book was only authorized for sale within certain countries.⁶⁵ Supap Kirtsaeng, a citizen of Thailand studying in the United States, organized a profitable scheme in which his family and friends in Thailand would mail him copies of textbooks manufactured abroad that were nearly identical to the U.S. copyrighted version—but less expensive—which he would then resell on eBay to customers in the United States.⁶⁶ John Wiley sued Kirtsaeng, claiming that Kirtsaeng's unauthorized importation and resale of its books amounted to a violation of copyright law under § 106(3) and § 602.⁶⁷ Kirtsaeng, in turn, argued that the books had been "lawfully made" and acquired, permitting him to resell them without the copyright owner's authorization under the first sale doctrine.⁶⁸

The Court opined that there was no geographical limitation on the first sale doctrine, and, therefore, established the principle of international copyright exhaustion.⁶⁹ The decision set the precedent that goods manufactured abroad could be imported and resold in the United States without additional permission from the copyright owner, as long as the goods were initially authorized to be manufactured and sold abroad.⁷⁰ The discussions and critiques surrounding the *Kirtsaeng* decision involved a variety of issues and interested parties.⁷¹ The

65. *Id.* For example, a copy of John Wiley's Asian edition of a textbook will say:
This book is authorized for sale in Europe, Asia, Africa, and the Middle East only and may be not exported out of these territories. Exportation from or importation of this book to another region without the Publisher's authorization is illegal and is a violation of the Publisher's rights. The Publisher may take legal action to enforce its rights

Id. (internal quotation marks omitted); see David R. Todd, *U.S. Supreme Court Holds That Copyright Is Subject to International Exhaustion*, WORKMAN NYDEGGER (Apr. 2, 2013), <http://www.wnlaw.com/ip-law-news/u-s-supreme-court-holds-that-copyright-is-subject-to-international-exhaustion>.

66. *Kirtsaeng*, 133 S. Ct. at 1356; see Mark Sherman, *Kirtsaeng v. John Wiley & Sons: Supreme Court Hears Contentious Copyright Case*, HUFFINGTON POST (Dec. 29, 2012, 5:12 AM) ("Kirtsaeng used eBay to sell \$900,000 worth of books published abroad by Wiley and others and made about \$100,000 in profit.").

67. *Kirtsaeng*, 133 S. Ct. at 1357.

68. *Id.* (internal quotation marks omitted). eBay and several other Internet companies submitted briefs as Amici Curiae to the Supreme Court in support of Kirtsaeng. Brief for eBay Inc. et al. as Amici Curiae Supporting Petitioner at 1, 5-6, 15, *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013) (No. 11-697); see *What You Need to Know About Kirtsaeng v. Wiley*, *supra* note 62 (acknowledging the briefs submitted on behalf of Kirtsaeng by companies, including eBay, Google, and Yahoo).

69. *Kirtsaeng*, 133 S. Ct. at 1358, 1370-71; see Athy, *supra* note 50, at 95-96.

70. *Kirtsaeng*, 133 S. Ct. at 1358; see Ilan et al., *supra* note 8, at 8; Leading Case, *supra* note 8, at 351; Athy, *supra* note 50, at 95-96.

71. See Leading Case, *supra* note 8, at 354; *What You Need to Know About Kirtsaeng v. Wiley*, *supra* note 62 (outlining the companies in favor of Kirtsaeng and those supporting John Wiley). Those in favor of the decision claim that American consumers will benefit from a greater choice of goods and lower prices, and that technology companies, libraries, used bookstores, and

Kirtsaeng holding allows sellers and entrepreneurs looking to profit from lower priced items manufactured abroad to use secondary market websites, such as eBay, to facilitate their sales without obtaining permission from the copyright owner for each transaction.⁷²

B. Current Anti-Infringement Tactics to Protect Against Illegal International Imports

There are two main steps involved in the process of online international sales: first, the purchase of a foreign-made item by a U.S.-based consumer;⁷³ and second, the shipment of that item from the foreign country to the United States.⁷⁴ Therefore, there are two key entities that can implement effective measures against copyright infringement in online international transactions: first, secondary market websites—for example, eBay—which provide the forum for international purchases;⁷⁵ and second, CBP, which oversees the entry of foreign goods into the United States.⁷⁶

1. Initiatives of Online Secondary Market Operators

Secondary market websites—such as eBay, Amazon, and Google—create a virtual platform where millions of individuals and businesses

retailers will be able to import products without having to ascertain approval from the copyright owner for each sale. *Kirtsaeng*, 133 S. Ct. at 1364-65; see Adam Liptak, *Justices Permit Resale of Copyrighted Imports*, N.Y. TIMES, Mar. 20, 2013, at B8. In the Court's own words, embracing the geographical interpretation could bring about a parade of "horribles." *Kirtsaeng*, 133 S. Ct. at 1366 (internal quotation marks omitted). On the other hand, critics have argued that the new standard creates problems for publishers who engage in price setting techniques for different geographic markets, as foreign editions may now be resold to U.S. consumers at a cheaper price, undercutting the publishers' profit. See Ilan et al., *supra* note 8, at 8; Leading Case, *supra* note 8, at 354.

72. See Ilan et al., *supra* note 8, at 8 ("The most immediate impact will be on those . . . that are in the business of reselling . . . materials, including technology companies, book, video game and music publishers and fashion and cosmetics companies."); Jennifer Waters, *Your Right to Resell Your Own Stuff Is in Peril*, MARKET WATCH (Oct. 12, 2012, 1:51 PM), <http://www.marketwatch.com/story/your-right-to-resell-your-own-stuff-is-in-peril-2012-10-04>.

73. See JOSEPH T. SINCLAIR & JEREMY HANKS, EBAY INVENTORY THE SMART WAY: HOW TO FIND GREAT SOURCES AND MANAGE YOUR MERCHANDISE TO MAXIMIZE PROFITS ON THE WORLD'S #1 AUCTION SITE 227 (2006); Lori L. Jones, *The Online Copyright Auction: How High Will the Bidding Go?*, 2 J. HIGH TECH. L. 45, 46 (2003).

74. See SINCLAIR & HANKS, *supra* note 73, at 227-28; Sarah Wilson, *Faux Real? How the Foreign Counterfeit Merchandise Prevention Act Helps Detect the Deceptive*, 24 DEPAUL J. ART TECH. & INTELL. PROP. L. 149, 151-52 (2013).

75. See *Rules About Intellectual Property – Overview*, EBAY, <http://pages.ebay.com/help/policies/intellectual-property-ov.html> (last visited Nov. 23, 2014).

76. See *Intellectual Property Rights: Fact Sheet*, U.S. CUSTOMS & BORDER PROTECTION, http://www.cbp.gov/linkhandler/cgove/newroom/fact_sheets/trade/ipr_fact_sheet.ctt/ipr_fact_sheet.pdf (last visited Nov. 23, 2014).

engage in sales transactions, oftentimes on an international level.⁷⁷ These services are ultimately permitted by the first sale doctrine of the Copyright Act,⁷⁸ which allows purchasers of legal copies of a copyrighted work to resell those items without consent from the copyright owner.⁷⁹ This Note will focus on one secondary market website in particular—eBay—although the proposed solution will include all qualifying online secondary market operators.⁸⁰ eBay, one of the “world’s largest online marketplaces,” allows members to buy and sell virtually anything at any time.⁸¹ eBay has been the fastest growing company in U.S. history, with more than three hundred million registered users in about thirty countries, and over seven hundred million listed items.⁸² eBay’s revenue derives primarily from two sources: the “insertion fee” charged to sellers for listing their items on the website; and the “final value fee,” which is a percentage of the final price of each

77. See SINCLAIR & HANKS, *supra* note 73, at 227-28 (stating the ease with which foreign goods may be imported through eBay); Eric Goldman, *Brand Spillovers*, 22 HARV. J.L. & TECH. 381, 400 (2009) (describing Google, Amazon, and eBay as major online secondary markets that give independent vendors the opportunity to conduct business in ways similar to those of traditional retailers); *Ten Things You Didn't Know About eBay*, NBC NEWS (June 29, 2005, 3:52 PM), <http://www.nbcnews.com/id/8391726/#.UoLe6T75kSg>.

78. See 17 U.S.C. § 109(a) (2012); Reese, *supra* note 39, at 586.

79. See Reese, *supra* note 39, at 586. The market for used books is a primary example of a popular secondary market for copyrighted goods. *Id.*

80. See Ronald J. Mann & Seth R. Belzley, *The Promise of Internet Intermediary Liability*, 47 WM. & MARY L. REV. 239, 258-59 (2005) (describing eBay as the dominant auction intermediary, and, therefore, the target of most secondary liability lawsuits for IP infringement); Michelle C. Leu, Note, *Authenticate This: Revamping Secondary Trademark Liability Standards to Address a Worldwide Web of Counterfeits*, 26 BERKELEY TECH. L.J., 2011, at 591, 600 (“An estimated 29 percent of online auction fraud happens on eBay.”).

81. See Kurt M. Saunders & Gerlinde Berger-Walliser, *The Liability of Online Markets for Counterfeit Goods: A Comparative Analysis of Secondary Trademark Infringement in the United States and Europe*, 32 NW. J. INT’L L. & BUS. 37, 45 (2011); Leu, *supra* note 80, at 599; *Global 2000: Superstars*, FORBES, <http://www.forbes.com/pictures/mgl45ekfl/eBay> (last visited Nov. 23, 2014); *Who We Are: One Company*, EBAY, http://www.ebayinc.com/who_we_are/one_company (last visited Nov. 23, 2014). In 2015, eBay expects to facilitate \$300 billion of global commerce. Press Release, eBay Inc., eBay Inc. Expects to Enable \$300 Billion of Global Commerce in 2015 (Mar. 28, 2013) (on file with the Hofstra Law Review).

82. See Leu, *supra* note 80, at 600; *Who We Are: One Company*, *supra* note 81. In 2013, eBay’s annual revenue was over \$16 million. *eBay Annual Income Statement*, WALL ST. J., <http://quotes.wsj.com/EBAY/financials/annual/income-statement> (last visited Nov. 23, 2014); see also Jillian D’Onfro, *eBay Beats on Earnings, Stock Down Slightly*, BUS. INSIDER (Apr. 29, 2014, 4:17 PM), <http://www.businessinsider.com/eBay-q1-earnings-2014-4> (outlining eBay’s 2014 first quarter earnings). eBay’s international revenues reached nearly \$7.3 billion in 2012. See Trefis Team, *eBay: The Year 2013 in Review*, FORBES (Dec. 26, 2013, 3:28 PM), <http://www.forbes.com/sites/greatspeculations/2013/12/26/eBay-the-year-2013-in-review>.

sold item.⁸³ Thus, eBay benefits from any item—whether legal or illegal—that is listed, and subsequently sold, through its website.⁸⁴

While eBay's business goals certainly include maximizing profits, both in the short and long term, eBay also has an incentive to maintain a loyal customer base by providing a well-functioning, efficient service.⁸⁵ In order to achieve this objective, eBay must ensure that its users are provided with truthful information, to save them the time and effort of investigating the authenticity of each item on their own.⁸⁶ eBay's current policies to prevent copyright infringement are relatively widespread, and include: eBay Feedback; Buyer Protection; the Trust and Safety Department; the fraud engine; "About Me" pages; and the Verified Rights Owner ("VeRO") Program.⁸⁷ eBay spends about \$20 million each year on "tools to promote trust and safety on its website," including employing more than 200 Customer Service Representatives ("CSRs") that focus exclusively on IP infringement issues, and 70 individuals who coordinate efforts with law enforcement.⁸⁸

eBay's VeRO program, which includes over 14,000 participants, involves a "notice-and-takedown" system that allows copyright owners to report a potentially infringing item to eBay by submitting a Notice of Claimed Infringement ("NOCI").⁸⁹ Once eBay's CSRs receive a NOCI that contains all of the necessary information and appears to be accurate, they will remove the listing within twenty-four hours or less.⁹⁰ eBay takes down thousands of listings every week based on the VeRO reporting system.⁹¹ In addition, eBay allows IP rights owners to create an

83. *Standard Selling Fees*, EBAY, <http://pages.ebay.com/ae/en-us/help/sell/fees.html> (last visited Nov. 23, 2014); see Andrew Lehrer, Note, *Tiffany v. eBay: Its Impact and Implications on the Doctrines of Secondary Trademark and Copyright Infringement*, 18 B.U. J. SCI. & TECH. L. 373, 376 (2012).

84. See Lehrer, *supra* note 83, at 376-78; Leu, *supra* note 80, at 600-01.

85. Leu, *supra* note 80, at 600.

86. *Id.* at 593.

87. See Jessica L. Hilliard, *Rights Versus Commerce: Balancing Online Trademark Policing with the Emerging Online Marketplace*, 11 J. MARSHALL REV. INTELL. PROP. L. 217, 222-23 (2011); Lehrer, *supra* note 83, at 379-82; Leu, *supra* note 80, at 601-04; Dawson J. Price, Note, *Leaving Feedback: An Analysis of eBay, Online Auctions, and Personal Jurisdiction*, 2014 U. ILL. L. REV. 231, 245-46 (discussing the various elements of eBay's feedback system); *Rules About Intellectual Property – Overview*, *supra* note 75.

88. *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 476 (S.D.N.Y. 2008), *aff'd in part*, 600 F.3d 93 (2d Cir. 2010); Leu, *supra* note 80, at 601.

89. Hilliard, *supra* note 87, at 223; Saunders & Berger-Walliser, *supra* note 81, at 45-46; Leu, *supra* note 80, at 603.

90. Hilliard, *supra* note 87, at 223; Saunders & Berger-Walliser, *supra* note 81, at 46; Leu, *supra* note 80, at 603.

91. Leu, *supra* note 80, at 603. However, once the listing is removed, the user may immediately re-post the items under a new listing, and therefore, the NOCIs are not particularly effective at preventing repeat or future infringement. Hilliard, *supra* note 87, at 223.

"About Me" page that appraises users on their products, IP rights, and legal positions.⁹²

eBay also spends more than \$5 million to maintain a fraud engine that uses about 13,000 different search criteria to find listings that indicate blatant infringement through terms such as "counterfeit" and "pirated."⁹³ The fraud system flags listings, which are then reviewed by eBay's CSRs, who may either remove the listing from eBay, send a warning to the seller, place restrictions on or suspend the seller's account, or refer the matter to law enforcement.⁹⁴

eBay's user penalties for violating copyright law include: listing cancellation; limits on account privileges; account suspension; forfeit of eBay fees on cancelled listings; and loss of "PowerSeller" status.⁹⁵ eBay relies on a "three-strikes" rule against sellers, which allows up to two IP infringement incidents before action is taken against the seller; however, suspension may result from a first time violation if the seller lists a number of infringing products, and it appears that this is the primary reason the seller uses eBay.⁹⁶ While eBay recognizes that the resale of copyrighted items is generally acceptable, it does not differentiate between national and international copyright exhaustion, nor does it provide any guidance in distinguishing between legal gray market goods and illegal black market goods that may appear similar.⁹⁷ Despite eBay's

92. Leu, *supra* note 80, at 604; Heather Park, Note, *The Search for Luxury Prudence: Applying Alternative Dispute Resolution to Contributory Trademark Liability in the Online Marketplace*, 83 U. COLO. L. REV. 925, 938 (2012). If eBay removes a listing, it directs the seller to the relevant IP rights owner's "About Me" page for an explanation as to why his listing was removed. Leu, *supra* note 80, at 604.

93. *Tiffany (NJ) Inc.*, 576 F. Supp. 2d at 477; see Katja Weckström, *Secondary Liability for Trademark Infringement in the United States*, 49 U. LOUISVILLE L. REV. 555, 559 (2011); Leu, *supra* note 80, at 602.

94. Leu, *supra* note 80, at 602. The fraud engine results in thousands of listing removed per month. *Id.*

95. *Copyright Basics*, EBAY, <http://pages.ebay.com/help/sell/copyrights.html> (last visited Nov. 23, 2014). PowerSellers enjoy special benefits, such as U.S. Postal Service Commercial Plus pricing, access to phone consultations, unpaid item protection, and health insurance solutions. *What's a PowerSeller? How to Qualify, and What You'll Get*, EBAY SELLER CENTER, <http://pages.ebay.com/sellerinformation/build-your-business-online/deliver-great-service/powerseller> (last visited Nov. 23, 2014) ("To qualify for the PowerSeller program, sellers need to consistently sell a significant volume of items, provide a high level of service to buyers, maintain a positive Feedback score, and meet the requirements for detailed seller ratings and eBay Buyer Protection and PayPal Buyer Protection case standards.").

96. Leu, *supra* note 80, at 602; Ellie Mercado, Note, *As Long as "It" Is Not Counterfeit: Holding eBay Liable for Secondary Trademark Infringement in the Wake of LVMH and Tiffany Inc.*, 28 CARDOZO ARTS & ENT. L.J. 115, 145-46 (2010) (suggesting several modifications for eBay's three strikes policy). eBay has also developed tools to identify previously suspended users, and prevent them from setting up new accounts using phony personal information. Leu, *supra* note 80, at 602-03.

97. *Copyright Basics*, *supra* note 95. eBay provides only very vague guidelines for reselling

anti-infringement efforts to protect IP rights owners, eBay still accounts for an estimated fifteen percent of known fraud on the Internet.⁹⁸

2. United States Customs and Border Protection

CBP is a federal law enforcement agency charged with guarding and regulating the borders of the United States.⁹⁹ One main goal of CBP is “facilitating lawful international . . . trade,” while “enforcing hundreds of U.S. laws and regulations.”¹⁰⁰ CBP oversees the importation of more than \$2 trillion worth of goods every year.¹⁰¹ It engages in a strategic IP rights enforcement program, aimed to target and seize imports of counterfeit goods.¹⁰² CBP’s multi-layered approach to IP rights enforcement includes not only seizing goods at the U.S. border, but also conducting post-import audits of companies caught bringing counterfeit goods into the United States, collaborating with trading partners, and working with industry and federal agencies.¹⁰³ Moreover, CBP has the authority to issue fines and refer criminal cases to appropriate law enforcement agencies.¹⁰⁴

copies of copyrighted items:

Under the copyright laws, the owner of a particular copy of a copyrighted work is generally entitled to resell the particular copy they own. For example, if you purchase a copy of a DVD movie, you are allowed to resell that particular DVD. Copyright protection prevents you from copying the DVD movie and reselling the copies. If you have licensed the right to use a particular copyrighted item, you should review the license and consult with your attorney to determine whether you can resell the item.

Id. (emphasis added). Moreover, in terms of distinguishing between legal and illegal goods, eBay’s website merely states that “[i]tems that bear a company’s official brand name or logo can be listed as long as the products were lawfully made by, for, or with the consent of that company. We don’t allow replicas, counterfeit items, or unauthorized copies to be listed on eBay.” *Replicas, Counterfeit Items, and Unauthorized Copies Policy*, EBAY, <http://pages.ebay.com/help/policies/replica-counterfeit.html> (last visited Nov. 23, 2014); see Fleming, *supra* note 1, at 324 (explaining that online secondary market operators are usually unaware of the differences between a genuine article and a counterfeited one).

98. Leu, *supra* note 80, at 600.

99. See *About CBP*, U.S. CUSTOMS & BORDER PROTECTION, <http://www.cbp.gov/xp/cgov/about> (last visited Nov. 23, 2014).

100. *Id.*; see Erin Fitzgerald, Note, *The Fashion Police: Criminalizing the Knowing Purchase of Trademark Counterfeit Fashion Items*, 47 NEW ENG. L. REV. 127, 136 & nn.79-80 (2012) (noting that one of CBP’s highest priorities is to regulate the importation of counterfeit goods).

101. Fitzgerald, *supra* note 100, at 136.

102. See Ancel W. Lewis, Jr. et al., *U.S. Customs Service Enforcement of Intellectual Property Rights*, COLO. LAW., Mar. 1993, at 519, 519; *Intellectual Property Rights*, U.S. DEP’T HOMELAND SECURITY (Aug. 6, 2014), http://www.cbp.gov/xp/cgov/trade/priority_trade/ipr.

103. *Intellectual Property Rights: Fact Sheet*, *supra* note 76; see Debra D. Peterson, *Seizing Infringing Imports of Cinderella’s Slippers: How Egyptian Goddess Supports U.S. Customs and Border Protection’s Enforcement of Design Patents*, 90 J. PAT. & TRADEMARK OFF. SOC’Y 888, 899-900 (2008).

104. 19 C.F.R. § 133.27 (2014) (authorizing CBP to impose a civil fine on any person involved in the “importation of merchandise for sale or public distribution that bears a counterfeit mark”);

CBP implements three collaborative IP rights enforcement measures: e-Recordation; e-Allegations; and information sharing.¹⁰⁵ e-Recordation allows IP rights holders to record their rights and contact information with CBP using an online program.¹⁰⁶ CBP's e-Allegations program encourages information sharing between businesses and IP rights owners—who may submit allegations of infringing shipments or conduct—and CBP, so that CBP officials can target infringing activities.¹⁰⁷ Information sharing involves submitting a product identification guide to help CBP identify infringing goods, which includes information such as: the registration number; a description of the physical characteristics of the product; photos of the genuine and suspect versions of the good; and manufacturing information.¹⁰⁸ Furthermore, information sharing includes product identification training to CBP personnel by companies themselves.¹⁰⁹ CBP uses the intelligence from IP rights owners and businesses to determine which imported shipments will actually be physically examined.¹¹⁰

CBP takes special precautions to prevent the importation of popular infringing goods into the United States, such as handbags, jewelry, clothing, and electronics.¹¹¹ Such safeguards require the seller to provide:

Intellectual Property Rights: Fact Sheet, *supra* note 76.

105. *Intellectual Property Rights Enforcement: How Businesses Can Partner with CBP to Protect Their Rights*, U.S. CUSTOMS & BORDER PROTECTION, 4, <http://www.stopfakes.gov/sites/default/files/IPR%20Guide%20for%20Industry.pdf> (last visited Nov. 23, 2014) [hereinafter *Intellectual Property Rights Enforcement*].

106. Peterson, *supra* note 103, at 896-97; *Intellectual Property Rights Enforcement*, *supra* note 105, at 4-5 (listing the benefits of the e-Recordation system and the information needed to register and access the e-Recordation database).

107. *Intellectual Property Rights Enforcement*, *supra* note 105, at 5.

108. *Id.* at 6-7; see Peterson, *supra* note 103, at 900. CBP relies on a system of risk assessment to target shipments that are at the highest risk for IP rights violations, using factors such as: suspect country of origin; ports of entry; modes of transport; commodity description; or alleged violator names and addresses. Peterson, *supra* note 103, at 898.

109. *Intellectual Property Rights Enforcement*, *supra* note 105, at 7; see Peterson, *supra* note 103, at 899-900 (identifying the purpose of this training as providing CBP officers with specific details of the goods, so that they can determine which products are genuine and which are counterfeit).

110. See Peterson, *supra* note 103, at 898. In evaluating whether a shipment contains infringing products, CBP will consult the e-Recordation database, and may also contact the IP rights holder to request assistance. *Id.* at 899. After physically examining the imported goods, CBP may either seize goods found to be counterfeit outright, or detain the shipment until a final determination is made. *Id.* CBP will initially detain gray market goods, rather than seize them. T. Jesse Goff, Note, *Regulation of Digital Copyrights and Trademarks at the U.S. Border: How the Proposed Anti-Counterfeiting Trade Agreement and the Enacted U.S. PRO-IP Act Will Destabilize the Current System*, 16 SW. J. INT'L L. 207, 215 (2010).

111. *Intellectual Property Rights: Fiscal Year 2012 Seizure Statistics*, U.S. DEP'T HOMELAND SECURITY, 7, 18, http://www.cbp.gov/linkhandler/cgov/trade/priority_trade/ipr/seizure/fy2012_final_stats.ctt/fy2012_final_stats.pdf (last visited Nov. 23, 2014) [hereinafter *Intellectual*

his name and address; quantity of each type of item being shipped; purchase price in U.S. dollars; weight of the items; and country of origin.¹¹² CBP also has the ability to negotiate Customs Mutual Assistance Agreements with other foreign administrations, which provides a legal basis for wide-ranging cooperation.¹¹³

C. The Digital Millennium Copyright Act: New Incentives for Online Service Providers

Congress enacted Title II of the Digital Millennium Copyright Act (“DMCA”)¹¹⁴ in 1998, in order to provide “strong incentives for service providers and copyright owners to cooperate to detect and deal with copyright infringements that take place in the digital networked environment.”¹¹⁵ Title II shields OSPs from liability for copyright infringement by creating “safe harbors,” but OSPs must first meet the requirements set forth in the DMCA.¹¹⁶ The four safe harbor provisions of the DMCA apply to: (1) transitory digital network communications; (2) system caching; (3) information residing on systems or networks at the direction of users; and (4) information location tools.¹¹⁷ Section 512(c) pertains to the third category—information residing on systems or

Property Rights: Fiscal Year 2012] (naming these items as those that are the most frequently seized by CBP). CBP officers determine copyright infringement by looking to “whether an ordinary observer would recognize the alleged copy as being appropriated from the copyrighted work.” Goff, *supra* note 110, at 216 (internal quotation marks omitted). Once CBP suspects that an imported item may be an infringing copy of a recorded copyrighted work, it must immediately notify the importer. *Id.* If the importer files a statement in response, and the IP rights owner files a written demand and bond, both the importer and the copyright owner may submit evidence supporting the claim or denial of infringement to guide CBP in its final decision. *Id.* at 216-17.

112. *Internet Purchases*, U.S. CUSTOMS & BORDER PROTECTION, http://www.cbp.gov/xp/cgov/trade/basic_trade/internet_purchases.xml (last visited Nov. 23, 2014); see Leah Chan Grinvald, *Resolving the IP Disconnect for Small Businesses*, 95 MARQ. L. REV. 1491, 1511 (2012).

113. *Customs Mutual Assistance Agreements (CMAA)*, U.S. CUSTOMS & BORDER PROTECTION, http://www.cbp.gov/xp/cgov/border_security/international_operations/international_agreements/cmaa.xml (last visited Nov. 23, 2014).

114. 17 U.S.C. § 512 (2012).

115. S. REP. NO. 105-190, at 20 (1998); see Debra Weinstein, Note, *Defining Expeditious: Uncharted Territory of the DMCA Safe Harbor Provision*, 26 CARDOZO ARTS & ENT. L.J. 589, 596 (2008) (identifying the purpose of the DMCA as reinforcing current doctrines of copyright liability through the creation of safe harbors, rather than attempting to rewrite copyright law).

116. See Annemarie Bridy, *Is Online Copyright Enforcement Scalable?*, 13 VAND. J. ENT. & TECH. L. 695, 712 (2011) (explaining that the DMCA scales back liability for OSPs, conditioned upon the OSPs’ assistance to IP rights owners in cases of online copyright infringement); Jonathan Band, Comment, *The Digital Millennium Copyright Act: A Balanced Result*, 21 EUR. INTELL. PROP. REV., 1999, at 92, 93 (describing the DMCA’s Title II provisions as providing common sense safe harbors for OSPs from copyright liability); Lehrer, *supra* note 83, at 384.

117. §§ 512(a)–(d).

networks at the direction of users—and has been applied to secondary market websites.¹¹⁸

In order to be eligible for safe harbor protection, an entity must be classified as a “service provider,” which is defined in the DMCA as “a provider of online services or network access, or the operator of facilities therefor.”¹¹⁹ Furthermore, in order to enjoy the immunity provided by the safe harbor provisions, an OSP must, under § 512(i): adopt and reasonably implement a policy that terminates accounts of users who are repeat infringers;¹²⁰ “accommodate[] and . . . not interfere with standard technical measures” used by copyright holders to identify or protect copyrighted works;¹²¹ and provide for proper notification of their copyright policy to their subscribers.¹²² Moreover, § 512(c) requires that the OSP had no actual knowledge of the infringing material, or awareness of facts or circumstances from which infringing activity is apparent, and does not receive a financial benefit directly attributable to the infringing activity.¹²³ In addition, the OSP must designate an agent to handle copyright infringement complaints who is easily accessible to the public through its website.¹²⁴

In order to trigger § 512(c)’s notice-and-takedown provision, copyright owners must provide adequate notice to the OSP.¹²⁵ The notification must substantially comply with the statutory requirements, or else the requisite level of knowledge by the OSP will not be met.¹²⁶

118. § 512(c); see Leu, *supra* note 80, at 599 (introducing the notice-and-takedown system of § 512(c)); Weinstein, *supra* note 115, at 598. Despite the safe harbor protections designated for OSPs, OSPs may still face claims of contributory and vicarious liability. S. REP. NO. 105-190, at 19.

119. § 512(k)(1)(B).

120. § 512(i)(1)(A).

121. § 512(i)(1)(B).

122. § 512(i)(1)(A).

123. § 512(c)(1); John Blevins, *Uncertainty as Enforcement Mechanism: The New Expansion of Secondary Copyright Liability to Internet Platforms*, 34 CARDOZO L. REV. 1821, 1835-36 (2013) (describing these provisions as “commonly litigated ‘good faith’ prerequisites” for OSPs).

124. § 512(c)(2); see Lydia Pallas Loren, *Detering Abuse of the Copyright Takedown Regime by Taking Misrepresentation Claims Seriously*, 46 WAKE FOREST L. REV. 745, 752-53 & nn.35-37 (2011).

125. § 512(c)(3)(A).

126. § 512(c)(3)(B); Blevins, *supra* note 123, at 1840-41. Proper notice for an alleged copyright infringement must be in writing, and must include reasonably sufficient contact information, in addition to:

(i) A physical or electronic signature . . . (ii) Identification of the copyrighted work claimed to have been infringed . . . (v) A statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner . . . (vi) A statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

§§ 512(c)(3)(A)(i)–(ii), (v)–(vi).

Upon proper notice, the OSP must expeditiously remove, or disable access to any material that is claimed to be infringing, and then must take reasonable steps to notify the creator of the allegedly infringing material that the material has been removed due to a DMCA notice-and-takedown request.¹²⁷ The accused infringer has the option to submit a counter-notification if he has a good faith belief that the material was removed as a result of mistake or misidentification.¹²⁸ By following these requisite procedures, the OSP is exempt from monetary liability for all copyright infringement claims, and the availability of injunctive relief is restricted.¹²⁹ However, § 512 does not place any affirmative requirement for OSPs to initiate searches for infringing material, instead relying on copyright owners to detect and report such material.¹³⁰

III. AN INTERNATIONAL DILEMMA: DISTINGUISHING THE GRAY FROM THE BLACK WHILE MAINTAINING PROPER INCENTIVES FOR ONLINE SECONDARY MARKET OPERATORS

International copyright infringement has become a critical and increasingly prevalent problem, especially in the age of the Internet.¹³¹ Secondary market websites, with their widespread reach and popularity, have opened the door for dishonest buyers and sellers to transfer illegal goods across international borders.¹³² Furthermore, the trade in gray market goods has increased significantly in recent years—particularly in

127. § 512(g)(2)(A)–(B).

128. § 512(g)(3). Following the receipt of a counter-notification, the OSP must then notify the original claimant that the material will be replaced, unless it receives notice of a pending legal action. § 512(g)(2)(C).

129. § 512(c)(1); Weinstein, *supra* note 115, at 597.

130. § 512(m)(1); see Jennifer Bretan, *Harboring Doubts About the Efficacy of § 512 Immunity Under the DMCA*, 18 BERKELEY TECH. L.J., 2003, at 43, 51.

131. See COUNTERFEIT PRODUCTS, *supra* note 16; Lauren E. Abolsky, Note, *Operation Blackbeard: Is Government Prioritization Enough to Deter Intellectual Property Criminals?*, 14 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 567, 588 (2004) (“The black market drains millions of dollars from the tax base, which causes Americans to pay higher taxes to compensate for the lost revenue.”); Kelley E. Moehr, Note, *Going Once, Going Twice, Sold! Are Sales of Copyrighted Items Exposing Internet Auction Sites to Liability?*, 21 LOY. L.A. ENT. L. REV. 97, 104 (2000).

132. See Jillian de Chavez, Note, *Building a Trademark Safe Harbor for Contributory Counterfeiting Liability After Tiffany v. eBay*, 86 ST. JOHN’S L. REV. 249, 258 (2012). The current standard in the United States “enables significant amounts of counterfeiting to continue in online marketplaces, even if it is a generally known fact that counterfeiting occurs there.” *Id.* at 269; see also Leu, *supra* note 80, at 612–15 (suggesting that, due to eBay’s success, dishonest sellers can easily use eBay’s services to distribute counterfeit products); *Figures and Statistics*, FIGHT AGAINST INTERNET PIRACY, <http://thefightagainstinternetpiracy.weebly.com/statistics.html> (last visited Nov. 23, 2014) (“In 2005, the Organization of Economic Co-operation and Development . . . estimated that the international trade in counterfeit and pirated products was approximately \$200 billion.”).

industries where consumers are looking for lower-priced products.¹³³ Thus, gray market goods are often sold on secondary market websites.¹³⁴ Black market goods are already often difficult to identify,¹³⁵ and this problem is amplified by gray market imports simultaneously being shipped to the United States.¹³⁶

As a result, IP rights owners are less protected against counterfeiters because CBP will face a new challenge of distinguishing between a growing number of gray market goods and black market goods.¹³⁷ Furthermore, online secondary market operators, who may still be exposed to IP infringement liability,¹³⁸ have no incentive to implement more protective anti-infringement measures to address this problem.¹³⁹ Subpart A discusses the difficulty of differentiating black market goods from gray market imports, which leaves IP rights owners vulnerable to increased IP rights violations.¹⁴⁰ Subpart B addresses the burden on online secondary market operators to sustain profitable businesses¹⁴¹ and limit their liability for IP infringement,¹⁴² while at the same time preventing illegal transactions on their websites.¹⁴³

133. See RALPH H. FOLSOM ET AL., INTERNATIONAL BUSINESS TRANSACTIONS 736-37 (2d ed. 2001); Goldberg, *supra* note 2, at 3067. Goods may be manufactured abroad at a lower cost due to lower wages, more business-friendly corporate tax policies, government subsidies, and fewer regulations. Dennis Hartman, *Why Americans Buy Foreign Goods*, ZACKS INVESTMENT RES., <http://finance.zacks.com/americans-buy-foreign-goods-8747.html> (last visited Nov. 23, 2014).

134. See Frederic A. Mendelsohn & Aaron H. Stanton, *Combating Gray Market Goods: Using the Lanham Act to Protect Your Clients*, BUS. L. TODAY, Nov./Dec. 2009, at 15, 15; see also Fleming, *supra* note 1, at 324 (explaining that, because of constant technological innovations and a high volume of sales, online secondary market operators cannot always distinguish between genuine goods and counterfeit replicas sold on their websites).

135. See Mikouya Sargizian, *Counterfeit Chic: Society's Friend or Foe?*, 17 INTELL. PROP. L. BULL. 111, 116 (2013) ("As technology has evolved, so has the black market, which is more sophisticated than ever before.").

136. See Amy E. Conroy, Note, *The Gray (Goods) Elephant in the Room: China's Troubling Attitude Toward IP Protection of Gray Market Goods*, 36 BROOK. J. INT'L L. 1075, 1081-82 (2011) ("Black market goods . . . often intermingle with [gray market] imports that are out of the brand's control. The term gray market itself reflects this possible contamination."); Mohr, *supra* note 17, at 571.

137. See Conroy, *supra* 136, at 1081-83. Gray market goods, in comparison to their domestic counterparts, are often characterized by: "(1) altered or obliterated serial numbers; (2) non-English language instructions, manuals, or labels; (3) a significantly reduced price from that of the U.S. exclusive distributor and/or sold without the standard, comprehensive U.S. warranty; and (4) physical differences, including packaging and/or product composition." Mendelsohn & Stanton, *supra* note 134, at 16.

138. See Mohr, *supra* note 131, at 113.

139. See Jennifer Bretan, *Harboring Doubts About the Efficacy of § 512 Immunity Under the DMCA*, 18 BERKELEY TECH. L.J. 2003, at 43, 51; Weinstein, *supra* note 115, at 598.

140. See *infra* Part III.A.

141. See *infra* Part III.B.1.

142. See *infra* Part III.B.2.

143. See *infra* Part III.B.1.

A. Lack of Protection for Intellectual Property Rights Owners in an Open Market for Gray Market Goods

Before the *Kirtsaeng* decision, U.S. copyright owners were able to block the importation of gray market goods manufactured abroad under § 602(a).¹⁴⁴ However, following the Supreme Court's holding in *Kirtsaeng*, IP rights holders are not only no longer able to prevent the entry of gray market goods,¹⁴⁵ but also face increased obstacles in regulating black market imports,¹⁴⁶ especially in a market in which the demand for gray market goods is growing.¹⁴⁷ Many buyers are attracted to the reduced prices of foreign-manufactured gray market or black market goods.¹⁴⁸

Books, DVDs, electronic devices containing software programs, or other copyrighted items¹⁴⁹ manufactured abroad illegally that appear confusingly similar to legal gray market goods may not be intercepted by CBP.¹⁵⁰ Thus, the post-*Kirtsaeng* legal standard facilitates the sale of

144. See Clayton J. Joffrion, *Primer for Trademark and Copyright Protection Through the Office of Customs and Border Protection*, FLA. B.J., June 2011, at 106, 107 ("All 'restricted gray market goods' imported into the United States are to be denied entry and are subject to detention unless an exception applies."); Mary LaFrance, *Wag the Dog: Using Incidental Intellectual Property Rights to Block Parallel Imports*, 20 MICH. TELECOMM. & TECH. L. REV. 45, 58 (2013).

145. See Christopher J. Clugston, *International Exhaustion, Parallel Imports, and the Conflict Between Patent and Copyright Laws of the United States*, 4 BEIJING L. REV. 95, 98 (2013).

146. See Cahn & Floum, *supra* note 11, at 499 (identifying the problem of counterfeiters using gray market goods as a cover to conceal trafficking of black market goods).

147. Conroy, *supra* 136, at 1081. Gray market importation has "flourished in the face of an increasingly global and interconnected market." Ashkenaz, *supra* note 38, at 190. The effect of gray market imports on the U.S. market is substantial. Mendelsohn & Stanton, *supra* note 134, at 15 (noting that in 2003, U.S. intellectual technology ("IT") product distributors lost approximately \$5 billion in profits in comparison with the \$40 billion in sales of gray market IT products).

148. Sellers, *supra* note 16, at 600-03 (explaining that one reason for black market purchases is consumers' belief that prices are too high); Conroy, *supra* note 136, at 1082 ("[T]he impact of the [gray] market is economically significant."); Goldberg, *supra* note 2, at 3067 (discussing that gray market goods are arguably beneficial for consumers because consumers are provided with more options and lower prices).

149. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1365 (2013) ("Technology companies tell us that 'automobiles, microwaves, calculators, mobile phones, tablets, and personal computers' contain copyrightable software programs or packaging.").

150. See Cahn & Floum, *supra* note 11, at 499; Conroy, *supra* note 136, at 1081; Mohr, *supra* note 17, at 571 n.52 (citing *Legislation to Amend the Lanham Trademark Act Regarding Gray Market Goods: Hearing on S. 626 Before the Subcomm. on Patents, Copyrights and Trademarks of the S. Comm. on the Judiciary*, 101st Cong. 85-86 (1990) (statement of Christopher Edley, Jr., President, Coalition to Preserve the Integrity of American Trademarks)) ("[G]ray market imports provide a perfect cover for counterfeits because Customs may let them into the country if they appear similar to the gray good. Furthermore, the intermingled goods allow retailers to argue that they thought that the illegal counterfeits were merely gray imports." (citation omitted)); see also Geoff Williams, *If What You Are Buying Is Counterfeit, It Isn't a Good Deal*, U.S. NEWS (Feb. 21, 2013, 3:15 PM), <http://money.usnews.com/money/personal-finance/articles/2013/02/21/if-what-you-are-buying-is-counterfeit-it-isnt-a-good-deal>.

illegal goods that closely resemble gray market goods.¹⁵¹ Furthermore, since some black market goods have advanced to the stage of being virtually indistinguishable from legitimate products,¹⁵² it is not any more challenging for a counterfeiter to produce illegal goods that look strikingly similar to gray market goods.¹⁵³

Moreover, CBP is ordinarily trained to target more expensive and popular trademarked goods—such as handbags, jewelry, and clothing¹⁵⁴—and does not necessarily receive expert training in distinguishing between copyrighted gray market goods and their illegal counterparts.¹⁵⁵ When CBP suspects that a copyrighted product is infringing, it detains the shipment and notifies the importer, rather than immediately seizing and destroying it, as it does with trademarked counterfeit goods.¹⁵⁶ Therefore, each time a gray market good is detained due to its resemblance to an illegal good, the importer will contest the detainment since all gray market imports are now legal, which will create an inefficient system of screening.¹⁵⁷

B. Secondary Market Websites: A Heavy Burden of Intellectual Property Rights Protection Without Guaranteed Immunity

Copyright owners often target third parties—and not the infringers themselves—that were indirectly involved in the illegal transaction, such as: the providers of Internet service; search engines; secondary market websites; and companies involved in the purchasing process of these goods.¹⁵⁸ The principles of secondary liability, based on tort law, have

151. See Upadhye, *supra* note 17, at 95 (concluding that gray market goods stimulate counterfeiting because counterfeiters are able to bypass CBP's anti-infringement implementations by disguising illegal goods as gray market goods); Cahn & Floum, *supra* note 11, at 499 ("[A] counterfeiter's continued participation in the channels of trade through which gray market goods move may afford the counterfeiter the opportunity to move counterfeit goods through those same channels, thereby making the counterfeit transaction difficult to detect.").

152. See Mercado, *supra* note 96, at 134.

153. See Mohr, *supra* note 17, at 571 & n.52 (explaining that CBP may mistakenly allow counterfeiters into the country because they appear physically similar to gray market goods).

154. See *Intellectual Property Rights: Fiscal Year 2012*, *supra* note 111, at 7, 18.

155. See *Intellectual Property Rights Enforcement*, *supra* note 105, at 7. CBP will only receive product identification training by companies that volunteer to do so. *Id.*

156. See Goff, *supra* note 110, at 214, 216.

157. See *id.* at 216-17. When a gray market importer contests a detainment, the importer has thirty days to file such a statement, and then the IP rights owner has thirty days to respond. *Id.* at 216. Therefore, even though the gray market good is now legal, the detainment process is still, if not more, lengthy. *Id.* at 216-17.

158. Sargizian, *supra* note 135, at 124-28 ("Intellectual property owners are using indirect liability lawsuits against third parties as a way of having someone else police their trademarks to deter infringement."); Jennifer L. Kostyu, Comment, *Copyright Infringement on the Internet: Determining the Liability of Internet Service Providers*, 48 CATH. U. L. REV. 1237, 1244-45, 1250-

been used to find third parties vicariously or contributorily liable for the direct infringements of others.¹⁵⁹ Although eBay has never been held liable,¹⁶⁰ it is by no means fully protected from secondary liability suits.¹⁶¹ While mere knowledge of the existence of infringing material may not be sufficient to hold eBay secondarily liable for copyright infringement,¹⁶² the courts may find that eBay has sufficient knowledge of, and materially contributes to, the direct infringement that takes place on its website by providing a venue and support services for the sale of counterfeit products.¹⁶³

1. Lack of Incentives: Minimal Intellectual Property Rights Protection in Exchange for Liability Immunity

Secondary market websites, if they fall within the OSP category, are not properly incentivized to implement additional anti-infringement initiatives because the DMCA does not require them to take affirmative steps to monitor copyright infringers.¹⁶⁴ OSPs simply have to show that

53, 1267-68 (1999).

159. See Kostyu, *supra* note 158, at 1244-45. Vicarious liability is established when a third party has the right and ability to control the actions of the direct infringer, and derives a "direct financial benefit from the infringement." *Id.* at 1244. Contributory liability is established when the defendant knows, or should have known, of the infringement, and materially contributes to, or induces, the infringement. *Id.* at 1245; see also Connie Davis Powell, *The Saga Continues: Secondary Liability for Copyright Infringement Theory, Practice and Predictions*, 3 AKRON INTELL. PROP. J. 189, 190 (2009) (explaining that, even in the absence of explicit statutory language establishing secondary liability, the common law principles of vicarious and contributory liability have been imposed in virtually all areas of the law).

160. See, e.g., *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 103, 107-09 (2d Cir. 2010) (ruling that eBay was not secondarily liable for trademark infringement for the sale of counterfeit jewelry on its website); *Hendrickson v. eBay Inc.*, 165 F. Supp. 2d 1082, 1093-96 (C.D. Cal. 2001) (holding that eBay was not secondarily liable for copyright infringement for continuing to allow the sale of pirated copies of a documentary film).

161. See Bretan, *supra* note 139, at 62 (arguing that the eligibility threshold of § 512(i) of the DMCA has been interpreted inconsistently).

162. See, e.g., *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 438-39, 446-47, 456 (1984) (finding that Sony Corporation of America's mere knowledge that customers were using video tape recorders to record copyrighted works exhibited on television was not sufficient to establish secondary copyright infringement).

163. See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020-24 (9th Cir. 2001) (ruling that Napster, Incorporated ("Napster") was both contributorily and vicariously liable because it materially contributed to the downloading of copyrighted music files by: policing its site and facilities; having actual knowledge that specific infringing material was available on its system; deriving a financial benefit from such availability; and failing to exercise its right and ability to police its system); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 263-64 (9th Cir. 1996) (holding a flea market owner vicariously liable for copyright infringement because he benefited from increased revenues due to the infringer's activities that lured customers to the market); see also Lehrer, *supra* note 83, at 384.

164. 17 U.S.C. § 512(m)(1) (2012); see Bretan, *supra* note 139, at 51 ("Section 512 imposes no affirmative duty on [OSPs] to police their vast systems in search of copyright infringement.").

they have no actual or apparent knowledge of the infringing material¹⁶⁵—which can be satisfied by turning a blind eye to such activity¹⁶⁶—and that they properly investigate notifications of alleged infringement.¹⁶⁷ OSPs are not required to proactively monitor their services, or invest any supplementary resources to prevent infringement beyond the minimum standard set forth by the DMCA.¹⁶⁸ This places the burden of identifying infringers and providing adequate notice on IP rights owners, while OSPs idly await notifications.¹⁶⁹ While an OSP is also not allowed to receive a direct financial benefit from the infringing material,¹⁷⁰ the standard for which an OSP would be found to be directly benefiting from the infringement is a narrow one.¹⁷¹ In essence, as long as OSPs meet this low threshold, they are protected from liability for copyright infringement and do not have to take further action, thereby continuing to profit from sales of counterfeit items.¹⁷²

On the other end of the spectrum, critics have proposed that OSPs should play a much larger role in monitoring copyright infringers, by implementing more protective measures.¹⁷³ However, in order for an OSP to maintain a successful business model, it cannot expend unlimited resources on its IP infringement detection efforts.¹⁷⁴ Therefore, there must be a proper balance of regulating OSPs' anti-infringement programs so that they substantially protect IP rights, without restricting OSPs' ability to profit from their business endeavors.¹⁷⁵

2. No Guaranteed Protection: Vague Definition of an Online "Service Provider" Under the Digital Millennium Copyright Act

Online secondary market operators only benefit from the DMCA's safe harbor provisions if they fall within the category of "service

165. § 512(c)(1)(A).

166. Blevins, *supra* note 123, at 1838-39.

167. § 512(c)(1)(C).

168. § 512(m)(1).

169. Blevins, *supra* note 123, at 1841-42 ("The consistent trend has been to interpret the notice provisions in a more rule-like fashion by limiting knowledge to the items specifically listed in the notice, and by being less forgiving of defective notices.").

170. § 512(c)(1)(B).

171. Blevins, *supra* note 123, at 1847-48 ("In effect, specific identification is now required . . . for the financial benefit and control standards . . .").

172. See Mercado, *supra* note 96, at 144; Moohr, *supra* note 131, at 113-15.

173. See Leu, *supra* note 80, at 616-20; Mercado, *supra* note 96, at 144-47.

174. See Paulina Rezler, *Teaming up on Defense: Best Solution for Trademark Infringement on Online Auction Websites?*, 15 *TOURO INT'L L. REV.* 74, 93 ("The development of anti-counterfeiting measures becomes more costly when the variables the technology needs to monitor and assess grow in number and in complexity."); Fleming, *supra* note 1, at 343-44.

175. See Leu, *supra* note 80, at 615.

provider.”¹⁷⁶ A service provider is defined in § 512(k) as “a provider of online services or network access, or the operator of facilities therefor.”¹⁷⁷ The definition of an OSP has been interpreted broadly,¹⁷⁸ usually to include secondary market websites under the third safe harbor—information residing on systems or networks at the direction of users—as they hold customers’ auction information on their computers.¹⁷⁹ For example, in *Hendrickson v. eBay Inc.*,¹⁸⁰ the Court analyzed eBay’s “right and ability to control” under the DMCA, defining eBay as an OSP eligible for immunity under the safe harbor provisions.¹⁸¹

Nevertheless, copyright owners have continued to pursue secondary copyright infringement lawsuits against alleged third party infringers.¹⁸² Some copyright owners argue that the third safe harbor regarding information storage should be interpreted more narrowly, so as to include only a subset of services provided.¹⁸³ Others argue that websites like eBay should not be included within the definition of a “service provider” at all.¹⁸⁴

In applying the “service provider” definition, courts have often ignored altogether the issue of whether the party qualifies as an OSP by either assuming or declaring that a company will qualify.¹⁸⁵ In *Perfect*

176. 17 U.S.C. § 512(k)(1)(B) (2012); see Liliana Chang, *The Red Flag Test for Apparent Knowledge Under the DMCA § 512(c) Safe Harbor*, 28 CARDOZO ARTS & ENT. L.J. 195, 199 (2010).

177. 17 U.S.C. § 512(k)(1)(B).

178. Blevins, *supra* note 123, at 1843; Eugene C. Kim, *YouTube: Testing the Safe Harbors of Digital Copyright Law*, 17 S. CAL. INTERDISC. L.J. 139, 154 (2007).

179. Mark A. Lemley & R. Anthony Reese, *Reducing Digital Copyright Infringement Without Restricting Innovation*, 56 STAN. L. REV. 1345, 1370 (2004).

180. 165 F. Supp. 2d 1082 (C.D. Cal. 2001).

181. *Id.* at 1088 (“eBay clearly meets the DMCA’s broad definition of online ‘service provider.’”). Robert Hendrickson alleged that eBay engaged in indirect copyright infringement “by providing an online forum, tools, and services to third party sellers” who engaged in the unlawful sale and distribution of pirated copies of DVDs. *Id.* at 1087. The court ruled that eBay did not have actual or constructive knowledge of the sale of infringing items, since Hendrickson’s defective notice failed to substantially comply with § 512(c)(3)’s notification requirements. *Id.* at 1092.

182. Blevins, *supra* note 123, at 1843.

183. *Id.* at 1843-44 (“The logic of [copyright holders’] strategy is to . . . transform the statutory construction into a more standard-like inquiry that requires factual discovery regarding the platforms’ various features.”).

184. *E.g.*, Moohr, *supra* note 131, at 120. The author explains that:

eBay updates its [website], controls the material on its [website], and frequently chooses to highlight certain auctions, all of which indicate that it does not merely act as a passive connective. Specifically, the rules eBay places in its User Agreement regarding the listing of items, proves it does not merely serve as a router of information, but rather exerts its presence over its website activity.

Id.

185. See Todd E. Reese, Comment, *Wading Through the Muddy Waters: The Courts’*

10, Inc. v. Cybernet Ventures, Inc.,¹⁸⁶ the court declared that “[a]lthough there appears to be uniform agreement that the definition is broad . . . the Court has found no discussion of this definition’s limits.”¹⁸⁷ So, even though the court admitted that “[i]t may be a close question whether such service qualifies as a ‘service provider,’ [f]or the moment . . . the Court will assume that Cybernet is a ‘service provider’ as defined in § 512(k).”¹⁸⁸ Furthermore, in *Tiffany v. eBay*,¹⁸⁹ the court acknowledged that eBay was a servicer of the website, but did not explicitly label eBay as an online “service provider.”¹⁹⁰ Thus, unclear and conflicting judicial interpretations as to whether secondary market websites are “service providers” leave online secondary market operators susceptible to copyright infringement litigation in the future.¹⁹¹

IV. CLARIFIED RESPONSIBILITIES FOR SECONDARY MARKET WEBSITES IN EXCHANGE FOR IMMUNITY AND TAX INCENTIVES

The primary goals of the DMCA are twofold: first, to encourage cooperation between OSPs and copyright owners in preventing copyright infringement online; and, second, to limit the liability of OSPs for secondary copyright infringement.¹⁹² However, eBay’s ability to detect infringement is restricted by the fact that eBay cannot physically inspect

Misapplication of Section 512(c) of the Digital Millennium Copyright Act, 34 SW. U. L. REV. 287, 296-97 (2004) (“[S]ome courts and commentators have reservations about the breadth of the service provider definition in the DMCA.”).

186. 213 F. Supp. 2d 1146 (C.D. Cal. 2002).

187. *Id.* at 1175; *see also* A & M Records, Inc. v. Napster, Inc., No. C99-05183, 2000 WL 573136, at *8 (N.D. Cal. May 12, 2000) (finding that Napster did not fall within § 512(a) of the safe harbor provisions as it “does not transmit, route, or provide connections through its system”). *But see* *Ellison v. Robertson*, 357 F.3d 1072, 1081 (9th Cir. 2004) (affirming the district court’s ruling that America Online Incorporated was eligible for the § 512(a) safe harbor protection as its fourteen-day period of storing infringing material was “transient” and “intermediate” (internal quotation marks omitted)).

188. *Perfect 10, Inc.*, 213 F. Supp. 2d at 1175.

189. 576 F. Supp. 2d 463 (S.D.N.Y. 2008).

190. *Id.* at 506; *see* Shanna Bailey, Comment, *Fighting an Anonymous Enemy: The Uncertainty of Auction Sites in the Face of Tiffany v. eBay and Lvmh v. eBay*, 40 CAL. W. INT’L L.J. 129, 162-63 (2009). Similarly, the Second Circuit Court in *Tiffany* described eBay as “the proprietor of a traditional classified service,” and generally refers to service providers in the context of the Inwood Standard, but does not explicitly define eBay as an online “service provider.” *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 97 n.2, 104-09 (2d Cir. 2010).

191. *See* Moohr, *supra* note 131, at 111-12 (“[T]he DMCA’s definition of service providers who may qualify for these safe harbor provisions is both ‘complex and ambiguous.’”).

192. Joseph M. Miller, Note, *Fair Use Through the Lenz of § 512(c) of the DMCA: A Preemptive Defense to a Premature Remedy?*, 95 IOWA L. REV. 1697, 1703 (2010).

the merchandise listed on its website.¹⁹³ Therefore, CBP must be involved in an effective cooperative solution.¹⁹⁴

Typically, copyright holders deal separately with CBP and eBay in order to report infringing conduct, as each entity has its own reporting system.¹⁹⁵ eBay's VeRO program allows IP owners to report alleged infringing activity,¹⁹⁶ however, under the DMCA, eBay is not required to take affirmative action against copyright infringement.¹⁹⁷ CBP's reporting system allows both businesses and IP rights owners to report suspect shipments,¹⁹⁸ which helps CBP conduct a risk analysis of which shipments are most likely to contain infringing goods.¹⁹⁹ Thus, by providing online secondary market operators with an incentive to investigate international infringers, and share the results of such efforts with CBP, a more unified system based on information sharing is established.²⁰⁰ This Note proposes the enactment of a statute that provides protection for both IP rights owners from black market imports, as well as secondary market websites from liability for IP infringement.²⁰¹

Subpart A proposes introducing legislation that more carefully defines an online "service provider" in order to guarantee immunity.²⁰² Subpart B provides a framework for heightened statutory requirements that eBay and other secondary market websites must abide by in order to

193. Leu, *supra* note 80, at 602.

194. See D. Beryl Gardner, *Gray Market Goods and Recording with the U.S. Customs and Border Protection: Where Section 526 May Be Limited by Interpretation, What Are the Alternative Measures for Trademark Enforcement?*, 18 U. BALT. INTELL. PROP. L.J. 141, 142-43, 151 (2010) (supporting the view that CBP officials may not fully have in place a system to effectively identify gray market goods, and that information recorded with CBP by IP rights owners helps CBP make decisions with greater accuracy and timeliness); Joffrion, *supra* note 144, at 106.

195. See Peterson, *supra* note 103, at 895-97; Saunders & Berger-Walliser, *supra* note 81, at 45-46.

196. See Leu, *supra* note 80, at 603-04.

197. See Bretan, *supra* note 139, at 51.

198. See *Intellectual Property Rights Enforcement*, *supra* note 105, at 5.

199. See Peterson, *supra* note 103, at 899 & n.89.

200. See de Chavez, *supra* note 132, at 273 (advising that solely implementing a notice-and-takedown mechanism like VeRO is not sufficient protection from infringement); Goff, *supra* note 110, at 210 (noting that CBP is already engaged in a number of international cooperative initiatives to strengthen IP enforcement); Mercado, *supra* note 96, at 137-38 (suggesting that while eBay should not be the sole policing force for infringing goods, there is an expectation that it will cooperate, as it is privy to certain information and has monitoring privileges that may prevent infringement).

201. See Miller, *supra* note 192, at 1703 (noting that cooperative efforts between IP rights owners and OSPs rely on compromise and compliance on the part of OSPs with certain mandatory provisions); *infra* Part IV.A-C.

202. See *infra* Part IV.A.

gain full immunity from copyright infringement liability,²⁰³ and describes the required information sharing between online secondary market operators and CBP.²⁰⁴ Next, Subpart C will explain the reward system that will be offered to online secondary market operators that meet the requirements specified in Subpart A.²⁰⁵

A. Clearer Definition of Qualifying Secondary Market Websites

In order to ensure that online secondary market operators are adequately protected, the proposed statute specifically encompasses secondary market websites, rather than the DMCA's broad definition of an OSP.²⁰⁶ The DMCA currently offers immunity from indirect copyright infringement to OSPs that comply with the specified requirements listed in § 512.²⁰⁷ However, the exact definition of an OSP has not been clearly determined.²⁰⁸ Therefore, this proposed legislation includes a clear statement indicating that online secondary market operators, such as eBay, Amazon, and Yahoo, will be eligible for full immunity from any liability for copyright infringement, in return for the secondary market website's compliance with clear requirements.²⁰⁹ For example, a secondary market website should be defined by the statute as follows:

*An online marketplace that acts as an intermediary, and provides a venue for auction and fixed-price sale transactions between third-party buyers and sellers, whether located domestically or abroad.*²¹⁰

By providing a precise definition for secondary market websites that qualify for immunity under the proposed statute, online secondary markets are undeniably protected from secondary liability claims, and,

203. See *infra* Part IV.B.1.

204. See *infra* Part IV.B.2.

205. See *infra* Part IV.C.

206. 17 U.S.C. § 512(k)(1)(B) (2012).

207. § 512.

208. See, e.g., *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146, 1175 (C.D. Cal. 2002).

209. See Mark A. Lemley, *Rationalizing Internet Safe Harbors*, 6 J. TELECOMM. & HIGH TECH. L. 101, 103-04 (2007). This portion of the proposed statute offers secondary market websites the same immunity as § 512 currently does—that is, immunity from monetary liability for copyright infringing material posted or sent through its system—in exchange for compliance with a series of conditions that will be more effective at preventing international copyright infringement. See, e.g., *id.*

210. See Levin, *supra* note 19, at 525. The author proposes a statute that broadly defines an “online auction website” to include eBay, Amazon and Google, among others: “[A] website where third parties can offer goods for sale.” *Id.* (internal quotation marks omitted).

therefore, more willing to comply with the guidelines provided by the proposed statute.²¹¹

B. A Cooperative System Beyond Intellectual Property Owners: Online Secondary Market Operators and Customs and Border Protection

The proposed statute carefully outlines the requirements that eBay and other secondary market websites must follow in order to qualify for full immunity from copyright infringement liability.²¹² The second part of the proposed legislation sets forth guidelines for maintaining thorough and accurate records of all suspected and confirmed infringers, and communicating such information to CBP.²¹³

1. Heightened Standards for Online Secondary Market Operators

Under the proposed legislation, eBay is required to focus a portion of its anti-infringement efforts specifically on international transactions, in order to directly address the importation of gray market and black market goods into the United States.²¹⁴ Therefore, eBay must establish a subdivision, within its already existent Trust and Safety Department, to specifically handle international transactions on its website.²¹⁵ eBay will

211. See Moohr, *supra* note 131, at 114-15 (explaining that, under the current system governed by the DMCA, OSPs are not incentivized to take a proactive role in removing infringing works from their networks, and, in fact, are discouraged from doing so, for fear that evidence of "control" will disqualify them from immunity under § 512(c)(1)(b)).

212. See Edward Lee, *Decoding the DMCA Safe Harbors*, 32 COLUM. J.L. & ARTS 233, 262 (2009). It is essential that clear guidelines are established because:

An unclear 'safe harbor' is self-defeating and of no practical use because it cannot guide people in how to avoid liability. Even worse, [it] can act as a 'trap' . . . by dangling the false prospect of immunity from liability in front of businesses who then invest millions of dollars in reliance on this false promise.

Id. (footnote omitted); *infra* Part IV.B.1.

213. See Lewis et al., *supra* note 102, at 520 (emphasizing that CBP's e-Recordation program is not effective in preventing infringing imports without the cooperation of IP rights owners providing pertinent information, such as: a listing by name and address of organizations that are known to have attempted to import infringing articles; the specific ports in which infringing articles can most likely be expected; the specific time period in which infringing articles will most likely be encountered; and, if possible, actual samples of original works and alleged infringing copies); *infra* Part IV.B.2.

214. See Matthew Fornaro, *A Parallel Problem: Grey Market Goods and the Internet*, 8 U. FLA. J. TECH. L. & POL'Y 69, 89 (2003) (explaining that secondary market websites have no way of recognizing whether goods listed by sellers are gray market goods); Leu, *supra* note 80, at 617. The theory of training certain employees to spot counterfeits based on eBay's archives may be applied to this proposed statute, with a specific focus on listings that indicate a foreign origin or seller. *Id.* at 617-18.

215. See de Chavez, *supra* note 132, at 264 & n.121 (describing eBay's various departments and programs to address counterfeiting on its website, such as its partnership with PayPal and its Trust and Safety Department). Since eBay has already invested in these various programs, it would take a portion of the established Trust and Safety Department, and reallocate some of its employees

set up an alert system to flag listings of items being shipped from abroad, which, if suspicious, will be further examined by employees of this international subdivision.²¹⁶ In addition, eBay should arrange its fraud engine to search for commonly infringing foreign-made products, countries where these types of products tend to originate from, or even conduct searches in different languages.²¹⁷

Currently, in order for eBay to remove infringing items from its website, an IP owner must file a NOCI through eBay's VeRO program, stating a good faith belief that the goods are infringing.²¹⁸ The process for registering for VeRO is relatively simple, requiring the IP rights owner to provide a name, physical address, and valid email address.²¹⁹ The proposed statute requires eBay to request additional information from IP rights owners, so that its CSRs can more quickly validate allegations and avoid fraudulent reports that lead to the removal of legitimate listings.²²⁰ For example, CBP requires that in order to participate in the e-Recordation program, the applicant must provide: the copyright registration number; the name and complete business address of the IP rights holder; citizenship of the rights owner; the place of manufacture; the name and address of any foreign person or business entity licensed to use the copyright; and the foreign title of the work, if applicable.²²¹ Thus, eBay should similarly require copyright holders to check a box indicating that their product is manufactured in a foreign country, in which case the IP rights holder will be required to provide further information.²²² IP rights owners will be encouraged to include descriptions or pictures of any goods they have authorized to be

and resources to handle international affairs. *See id.*

216. *See* Leu, *supra* note 80, at 602. The same flagging system used by eBay's fraud engine may be applied for the purpose of identifying international imports. *Id.*

217. *See* Brandon Peene, Comment, *Lux for Less: eBay's Liability to Luxury Brands for the Sale of Counterfeit Goods*, 40 SETON HALL L. REV. 1077, 1084 (2010) (explaining that eBay already "employs targeted efforts to fight counterfeiting in particularly vulnerable areas," including "prohibiting sellers in Hong Kong and . . . China, where counterfeit trafficking is [common], from listing items prone to counterfeiting").

218. *See* Levin, *supra* note 19, at 497; Mercado, *supra* note 96, at 126.

219. *See* Mercado, *supra* note 96, at 126.

220. *See* Levin, *supra* note 19, at 497 (explaining that the burden is on the accused seller to prove that the removed listing is legal); Mercado, *supra* note 96, at 126 (describing critics' argument that the registration process "is abused by competitors, buyers, and corporations, to maliciously terminate" lawful transactions).

221. *See* *Border Check: Recording Your Intellectual Property with U.S. Customs and Border Protection*, GALLAGHER & DAWSEY CO. (Oct. 2006), http://www.invention-protection.com/ip/publications/docs/Border_Check_Recording_Your_Intellectual_Property_With_US_Customs_Border_Protection.html [hereinafter *Border Check*]; *Intellectual Property Rights Enforcement*, *supra* note 105, at 5.

222. *See, e.g.,* *Border Check*, *supra* note 221; *Intellectual Property Rights Enforcement*, *supra* note 105.

manufactured outside of the United States, and accordingly label them as “gray market goods.”²²³ Furthermore, eBay should set up a section of its VeRO program to allow foreign government agencies, businesses, and individuals to contact eBay regarding alleged infringing activity, as the CBP does with its e-Allegations program.²²⁴

eBay should also require sellers to provide more personal information when registering for eBay.²²⁵ eBay’s current policy is to require that users provide a name and e-mail address.²²⁶ In addition, sellers must undergo identity verification, which simply requires providing credit card information.²²⁷ Under the proposed statute, eBay must request additional information from the sellers, such as: place of manufacture; location of purchase; proof of authentication; and photographs of the item.²²⁸

Furthermore, eBay will be required to devise a stricter penalty program for international infringers.²²⁹ eBay currently has a “three strikes” policy, allowing repeat infringers up to three chances before suspension or other action is taken against them.²³⁰ Instead, eBay should immediately suspend users who are responsible for listing black market goods originating abroad.²³¹ Finally, eBay should create a manual and set

223. See Mercado, *supra* note 96, at 126. In addition to stating a good faith belief that items listed are infringing, requesting eBay to remove the listing from its website, and associating each reported item with a reason code, IP rights owners should also include an uploaded picture and identify that item as a “gray market good” when submitting a NOCI. See *id.*

224. See U.S. DEPT. HOMELAND SECURITY, WHAT EVERY MEMBER OF THE TRADE COMMUNITY SHOULD KNOW ABOUT: CBP ENFORCEMENT OF INTELLECTUAL PROPERTY 6 (2012), available at http://www.cbp.gov/sites/default/files/documents/enforce_ipr_3.pdf (explaining that anyone can report an infringing import through CBP’s e-Allegations program); Gautham Nagesh, *CBP Launches Online System to Report Trade Violations*, NEXTGOV (June 20, 2008), <http://www.nextgov.com/health/2008/06/cbp-launches-online-system-to-report-trade-violations/42167> (quoting a governmental official, dismissing concerns that e-Allegations would lead to a large number of frivolous reports); *Intellectual Property Rights Enforcement*, *supra* note 105, at 5.

225. Mercado, *supra* note 96, at 124 (explaining that eBay’s registration process only takes a few minutes, requiring a working e-mail address, a valid credit card, and a satisfactory username).

226. *Id.*

227. Mercado, *supra* note 96, at 124; Peene, *supra* note 217, at 1082.

228. See de Chavez, *supra* note 137, at 274 (suggesting that eBay require sellers to provide additional information, such as a certificate of authenticity for the sales of brand-name goods or a notarized letter attesting to the product’s authenticity); Peene, *supra* note 217, at 1107 (arguing that, by allowing sellers to act in relative anonymity, eBay enables users to conduct illegal transactions).

229. See Bridy, *supra* note 116, at 727-28 (stating that the DMCA does not define “repeat infringer,” which makes OSPs more reluctant to terminate users’ access based solely on allegations by IP rights owners).

230. See Lehrer, *supra* note 83, at 380; Leu, *supra* note 80, at 602 (acknowledging that a seller can still be suspended on the first infringement violation if he posted numerous infringing items, and selling infringing items seems to be the seller’s sole purpose for using eBay).

231. See Mercado, *supra* note 96, at 145-46.

up training sessions—whether online or in person²³²—for employees of the international subdivision, which explain the distinguishing factors between gray market and black market goods being imported from certain regions of the world—including lists, descriptions, and photographs of each version.²³³

2. Reporting to the CBP: A Cooperative Effort

In accordance with the proposed statute, eBay must keep current records of all identifying information of foreign infringers and infringing goods.²³⁴ Then, eBay will send these lists of known and suspected infringers to CBP, including all of the information that eBay has collected and stored.²³⁵ eBay should organize its records based on the origin of the suspected counterfeit material and the type of merchandise being imported, enabling CBP to compare information sent by eBay with its own extensive records on international imports.²³⁶ Since eBay's fraud engine is already engineered to evaluate listings based on the seller's Internet Protocol Address, this information should be included, as well.²³⁷ By creating this system, eBay shares the burden of safeguarding the rights of IP owners and uses its resources to collect the maximum

232. See *Intellectual Property Rights Enforcement*, *supra* note 105, at 7. The CBP takes advantage of companies willing to provide product identification training to CBP personnel, and eBay should use similar resources in training its employees. *Id.* Furthermore, eBay already offers tutorials online on intellectual property policies, so eBay should create a "How To" tutorial covering the differences between gray market and black market goods for its employees. *Trust and Safety Tutorials*, EBAY, <http://pages.ebay.com/help/policies/tns-tutorials.html> (last visited Nov. 23, 2014).

233. See Bradley J. Olson et al., *The 10 Things Every Practitioner Should Know About Anti-Counterfeiting and Anti-Piracy Protection*, 7 J. HIGH TECH. L. 106, 111-12 (2007) (arguing that the most important part of an internal monitoring program is to educate employees and make them "aware that the gray market fosters the development of the black market"); Peterson, *supra* note 103, at 899 (providing that product identification training can be used to ease the difficulty of distinguishing genuine products from infringing counterparts).

234. See Lewis, *supra* note 102, at 520 ("Customs should be given detailed descriptions and photographs that will facilitate visual identification of potential infringing articles."); Mercado, *supra* note 96, at 146 (proposing that eBay keep an updated list of every banned member and their Internet Protocol addresses).

235. See Mercado, *supra* note 96, at 146; Peterson, *supra* note 103, at 898-99 (highlighting the critical role of intelligence from IP rights holders in CBP's targeting of certain shipments). CBP officers will consult the e-Recordation database during the infringement determination process to obtain more information about the IP-protected good. *Id.* at 899.

236. Nicholas H. Rasmussen, Note, *Efficient Exclusions: Improving the Efficiency of United States International Trade Commission Exclusion Order Enforcement*, 11 WASH. U. GLOBAL STUD. L. REV. 845, 865 (2012) (asserting that the CBP requires—in addition to names, addresses, location, and contact information for parties importing and receiving imports—a variety of specialized forms tailored to particular imports and importers).

237. See Hilliard, *supra* note 87, at 236.

amount of information, which makes it easier for CBP to effectively distinguish gray market goods from illegal counterfeits.²³⁸

This process is crucial in preventing black market goods from entering the United States by mimicking the appearance of gray market goods.²³⁹ Since eBay regulates the venue where buyers and sellers agree to transact for potentially infringing international goods, this proposed solution gives CBP the advantage of having access to such information before the deliveries even reach the U.S. border.²⁴⁰ In addition, eBay will be required to send updated records to CBP in a timely manner, so that CBP officials will be able to preview potentially infringing products in preparation of their arrival and immediately enter the information into their systems.²⁴¹

C. Incentives for Online Secondary Market Operators

In exchange for complying with the previously discussed requirements imposed by the proposed legislation,²⁴² eBay will be rewarded for its efforts, rather than be forced to take a revenue cut and potentially lose out to other competitors.²⁴³ Since IP rights owners and the government will reap significant benefits from the efforts of online secondary market operators to provide crucial information about infringers to CBP, the proposed statute gives qualifying secondary

238. See Larry Pfeil, *Piracy in the Information Age: Effective Protection of Intellectual Property Rights*, CURRENTS: INT'L TRADE L.J., Summer 1999, at 17, 20-21 (declaring that implementation of an effective anti-counterfeiting campaign requires a three-step approach: (1) prevention; (2) detection; and (3) enforcement); Peterson, *supra* note 103, at 898 (stating that since CBP can only physically examine a small portion of imported shipments, it relies on a system of risk assessment to target high-risk shipments).

239. See Pfeil, *supra* note 238, at 20-21. Early detection of counterfeit products requires educating CBP officials on how to distinguish between authentic and counterfeit products. *Id.*

240. See *Intellectual Property Rights Enforcement*, *supra* note 105, at 2-3. CBP emphasizes its multi-layered, risk-based approach to enforcing IP rights, including partnering with third-party entities. *Id.*; see also Pfeil, *supra* note 238, at 21 ("Rapid and reliable detection of counterfeit products, and a quick response by law enforcement officials and the intellectual property right owner allows the counterfeits to be removed from the stream of commerce at an early stage . . .").

241. See Leu, *supra* note 80, at 603. Just as eBay promptly responds to NOCs, it should be given a responsible—but brief—time frame to send these updates to ensure that CBP has current information. See *id.*

242. See *supra* Part IV.A-B.

243. See James Ciula, *What Do They Know? Actual Knowledge, Sufficient Knowledge, Specific Knowledge, General Knowledge: An Analysis of Contributory Trademark Infringement Considering Tiffany v. eBay*, 50 INTELL. PROP. L. REV. 129, 158 (2009) ("A legislative remedy should not over-penalize the website for illegal activities third-party users carry out, but some level of responsibility should still be placed on a site that knows of illegal activities that are occurring but does not do enough to try to prevent such activities."); Park, *supra* note 92, at 938 (arguing that eBay already invests over \$20 million dollars a year in IP rights protective measures, and that it would be impossible for eBay to completely eliminate the existence of counterfeit listings).

market websites an appropriate tax subsidy for their continued cooperation.²⁴⁴ By offering such a reward, online secondary market operators are properly incentivized to comply with the requirements set forth by the proposed legislation.²⁴⁵

Through the sharing of information between online secondary market operators and CBP, the government will have the information it needs to successfully prosecute more international IP infringement cases.²⁴⁶ Since IP infringement operations tend to be lucrative,²⁴⁷ it is only fair that a portion of the revenue accrued by the government from these successful cases be awarded to online secondary market operators through tax incentives for their assistance.²⁴⁸

244. See Orly Lobel, *Linking Prevention, Detection, and Whistleblowing: Principles for Designing Effective Reporting Systems*, 54 S. TEX. L. REV. 37, 44 (2012) (explaining that legal systems may rely on methods such as offering monetary rewards to encourage the reporting of illegal activities); Timothy A. Dunn, Note, *Business Tax Incentives: A Modern View Utilizing Tiebout-Hamilton Rationales*, 40 TEX. J. BUS. L. 235, 237-38 (2004) (discussing that tax incentive programs have become the norm in the American business marketplace, and that new types of incentives have emerged over the years).

245. See, e.g., Stefan Rützel, *Snitching for the Common Good: In Search of a Response to the Legal Problems Posed by Environmental Whistleblowing*, 14 TEMP. ENVTL. L. & TECH. J. 1, 44 (1995). For example, whistleblower laws, such as the False Claims Act, financially reward informants who report a case of fraud by a government contractor. *Id.* at 44 (citing 31 U.S.C. §§ 3729-3733 (2012)). After Congress implemented a mandatory minimum recovery for whistleblowers under the False Claims Act, lawsuits brought under the False Claims Act jumped "from an annual average of 6 to 280 in 1990 and continue to increase." Rützel, *supra*, at 44. The policy behind similar reward-based systems is to encourage the disclosure of misconduct through financial compensation. Peter D. Banick, Case Note, *The "In-House" Whistleblower: Walking the Line Between "Good Cop, Bad Cop,"* 37 WM. MITCHELL L. REV. 1868, 1879 (2011).

246. See Pfeil, *supra* note 238, at 21. Enforcement of IP rights requires "a commitment from industry, government, and international organizations," in order to accumulate sufficient resources to prosecute counterfeiters. *Id.*; see also *Intellectual Property Rights Enforcement*, *supra* note 105, at 3 (attributing CBP's success in targeting counterfeit goods to its multi-agency operations, through which CBP collaborates with federal agencies, foreign governments, IP rights owners, and industry organizations). CBP is the number one source for criminal investigative leads referred to Immigration and Customs Enforcement and Homeland Security Investigations. *Id.*

247. See Roncaglia, *supra* note 6, at 1394; Sellers, *supra* note 16, at 599; *Black Market for Counterfeit Goods Rakes in \$500 Billion Yearly*, ABC NEWS NIGHTLINE (Oct. 22, 2013, 10:06 AM), <http://news.yahoo.com/blogs/nightline-fix-abc-news/black-market-counterfeit-goods-rakes-500-billion-yearly-140659855.html>.

248. See Tyler G. Newby, *Criminal Enforcement of Federal Intellectual Property Laws-an Overview*, ADVOCATE, Aug./Sept. 2007, at 37, 37-38 (explaining that in order to prove criminal infringement, the government is required to show that the defendant intentionally violated a known legal duty, by persisting in conduct which he knew had a high likelihood of being a violation of a criminal statute). In order to meet this high standard of proof, the government benefits from any additional information and evidence that CBP provides. See *id.*

V. CONCLUSION

International copyright exhaustion threatens both IP rights owners and secondary market websites.²⁴⁹ As a result of the *Kirtsaeng* decision, gray market goods authorized to be manufactured abroad may now be legally imported into the United States without permission from the copyright holder, leading to increased difficulty in distinguishing between black market and gray market imports,²⁵⁰ and exposing online secondary market operators to liability for indirect infringement suits.²⁵¹ In order to effectively address this problem, statutory guidelines must be enacted, delegating further responsibilities to online secondary market operators: namely, the increased monitoring of international imports,²⁵² and the reporting of detailed information to CBP.²⁵³ In exchange, online secondary market operators will be granted full immunity from all secondary liability lawsuits,²⁵⁴ as well as tax subsidies.²⁵⁵ By establishing a system based on a fair exchange of burdens and incentives—rather than solely the imposition of added responsibilities—online secondary market operators are much more likely to follow the requirements of the proposed statute, without fear of losing their competitive edge.²⁵⁶ The implementation of this proposed statute increases the probability that an American student ordering a textbook online will receive the genuine product that was ordered and paid for, instead of a foreign-made counterfeit.²⁵⁷

Addie T. Katz*

249. See *supra* Part III.A–B.

250. See *supra* Part III.A.

251. See *supra* Part III.B.

252. See *supra* Part IV.B.1.

253. See *supra* Part IV.B.2.

254. See *supra* Part IV.A.

255. See *supra* Part IV.C.

256. See *supra* Part IV.A, C.

257. See *supra* text accompanying notes 1–8; *supra* Part IV.

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