
INCORPORATING A DEPOSIT MECHANISM INTO THE DIGITAL MILLENNIUM COPYRIGHT ACT TO FIGHT ONLINE COUNTERFEITING IN E-COMMERCE

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ABSTRACT

Counterfeit goods have long plagued markets. While advances in online retail have improved consumer access, they have simultaneously created new routes for counterfeiters to peddle their illicit goods. E-retailers allow third parties to list goods directly on their platforms, enabling counterfeiters to leverage the perceived legitimacy of the platforms to deceive consumers. E-retailers' efforts to reduce online counterfeiting have proven ineffective. As a result, harms from online counterfeiting totaled over fifty-four billion dollars in 2021.

Currently, an e-retailer is only contributorily liable for counterfeit goods sold on its platform if it is subjectively aware goods are counterfeit and continues to allow sales of those goods. Economic benefits from illegitimate goods incentivize e-retail platforms to allow some counterfeit goods to remain. This incentive structure requires the imposition of outside requirements on e-retail platforms to remove counterfeit goods from their platforms.

The Digital Millennium Copyright Act's safe harbor provision can potentially be applied in the trademark context to reduce the number of counterfeit goods on e-retail platforms and disincentivize opportunistic and anticompetitive claims against legitimate goods. One modification to the Digital Millennium Copyright Act is a system that requires claimants to provide the e-retail platform with a deposit at the time of initiating a counterfeit claim. If the claim proved false and there was no counterfeit, the deposit would go to the accused party, making them economically whole and reducing the benefit of opportunistic counterfeit claims. The deposit system would encourage e-retail platforms and listing parties to work together to eliminate counterfeit goods, thereby benefiting producers and consumers alike.

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INTRODUCTION

Online retail rapidly rose to dominate global commerce, and that growth shows no signs of slowing down. Current e-retail powerhouse Amazon entrenched themselves as an economic and cultural staple within thirty years.¹ Amazon's explosive development has benefited consumers and producers alike.² That expansion is particularly pronounced for third-party producers, with Amazon's third-party sales reaching \$160 billion in 2018, up from \$100 million in 1999.³ Other online platforms have experienced similar growth. For example, Walmart increased e-commerce sales by 40% in 2018.⁴ Consumers have benefitted from an ever-expanding variety of goods and services along with an increasing pace of delivery.⁵ Meanwhile, producers have benefitted from reduced entrance costs and a constantly improving ease of access to consumers.

However, the more efficient market facilitated by e-commerce is also accompanied by negative developments, chief among them a proliferation of counterfeiting. Counterfeiters have taken advantage of e-commerce to peddle counterfeit goods to unsuspecting consumers.⁶ Online counterfeiting through e-commerce websites presents additional challenges for consumers because:

¹ Avery Hartmans, *Jeff Bezos Originally Wanted To Name Amazon 'Cadabra,' and 14 Other Little-Known Facts About the Early Days of the E-commerce Giant*, INSIDER (July 2, 2021, 2:42 PM), <https://www.businessinsider.com/jeff-bezos-amazon-history-facts-2017-4> [<https://perma.cc/W8U4-7J4H>].

² See OFF. OF STRATEGY, POL'Y & PLANS, U.S. DEP'T OF HOMELAND SEC., COMBATING TRAFFICKING IN COUNTERFEIT AND PIRATED GOODS 7 (2020), https://www.dhs.gov/sites/default/files/publications/20_0124_plyc_counterfeit-pirated-goods-report_01.pdf [<https://perma.cc/QE7T-52HS>] (“[E]-commerce year-over-year retail sales grew by 13.3 percent in the second quarter of 2019 . . .”).

³ *Id.* (discussing how growth of e-commerce enabled trafficking of counterfeit and pirated goods).

⁴ *Id.*

⁵ See Jason Del Rey, *The Amazon Dilemma: How a Tech Powerhouse That Fulfills Our Every Consumer Need Still Lets Us Down*, VOX (July 22, 2019, 9:37 AM), <https://www.vox.com/2019/7/22/20703408/amazon-land-of-the-giants-podcast-blind-spots> [<https://perma.cc/5VVX-D8FL>] (contrasting ways Amazon's structure benefits consumers with negative effects of its large market power).

⁶ See Jay Kennedy, *Shoppers, Beware: The Online Shopping Boom Could Usher in a Rise in Counterfeits*, FORBES (June 22, 2020, 10:22 AM), <https://www.forbes.com/sites/jay-kennedy/2020/06/22/shoppers-beware-the-online-shopping-boom-could-usher-in-a-rise-in-counterfeits/?sh=52a5dc325b9a> (noting how difficulty in attaching counterfeit liability to e-commerce platforms and rise in online shopping due to COVID-19 increase likelihood of consumers falling victim to counterfeiters); Richard Partington, *Online Retail Fuelling Rapid Rise in Sales of Fake Goods, Says OECD*, GUARDIAN (Mar. 18, 2019, 2:09 PM), <https://www.theguardian.com/technology/2019/mar/18/online-retail-fuelling-rapid-rise-sales-fake-goods-says-oecd> [<https://perma.cc/QXX8-93VA>] (noting counterfeit goods “accounted for as much as 3.3% of total international trade in 2016, up from 2.5% (\$461bn in 2013”); *Study Reveals Expected Spike in Counterfeits This Holiday Shopping Season*, BUS. WIRE (Oct. 12, 2020, 10:00 AM), <https://www.businesswire.com/news/home/20201012005128/en> [<https://perma.cc/4P4W-4QEF>] (highlighting online counterfeit risks during Black Friday).

(1) consumers purchase items without seeing the goods or meeting the seller, (2) the ease of entering the market allows counterfeiters to place their products alongside legitimate products, and (3) the trust cultivated by many e-commerce sites causes many consumers to let their guards down and be less discerning before purchasing.

The problem is so widespread that some companies, including retail titans Nike and Birkenstock, have removed their products from Amazon in part to prevent further harm from online counterfeiting.⁷ Current efforts by retailers, consumer groups, and law enforcement to police online counterfeiting are ineffective at stemming the flow of counterfeit goods into the U.S. market.⁸ A new facet of the dangers posed by online counterfeiting arose during the COVID-19 pandemic when many counterfeit N95 masks were sold to consumers who believed they were purchasing properly tested and functioning N95 protective equipment.⁹

This Note addresses this outstanding problem and proposes a unique solution that will reduce online counterfeiting while minimizing residual harms to consumers, producers, and competition generally. Part I explains how e-commerce and trademark operate and explores how the contributory liability doctrine applies to online commerce as it is currently being implemented. Part II explores the extent of the online counterfeiting problem in relation to both consumers and producers and explains why the current steps e-commerce platforms have taken to reduce counterfeit goods on their platforms are unable to stem the tide of counterfeit goods. This Part concludes by surveying and evaluating legislative proposals and actions. Part III proposes a deposit-based solution that disincentivizes anticompetitive behaviors from trademark holders while fostering cooperative relationships between said holders and their host platforms. This Note concludes by summarizing the problem, with its massive and still growing effects, and emphasizing the urgency needed to combat online counterfeiting.

⁷ Ganda Suthivarakom, *Welcome to the Era of Fake Products*, N.Y. TIMES: WIRECUTTER (Feb. 11, 2020), <https://www.nytimes.com/wirecutter/blog/amazon-counterfeit-fake-products/> (reporting Amazon's "unwillingness" to fight counterfeits led to Birkenstock pulling products from site and describing dangers of banned, unsafe, and mislabeled products).

⁸ Press Release, Buy Safe Am. Coal., Counterfeit Goods Put Consumers at Risk, Cost U.S. Economy Billions (Oct. 13, 2021), <https://www.buysafeamerica.org/counterfeit-goods-put-consumers-at-risk-cost-u-s-e> [<https://perma.cc/4EHV-43FQ>] (noting current failure to stop counterfeit goods from entering U.S. market and urging Congress to pass legislation that would "require online marketplaces to collect and verify basic business information from sellers, making it harder for con artists and foreign enterprises to target American consumers with fake products on leading e-commerce platforms").

⁹ See Andrew Jacobs, *Counterfeit Covid Masks Are Still Sold Everywhere, Despite Misleading Claims*, N.Y. TIMES (Dec. 1, 2021), <https://www.nytimes.com/2021/11/30/health/covid-masks-counterfeit-fake.html> (describing prevalence of counterfeit N95 masks online).

I. BACKGROUND

A. *E-retail*

The rise in e-retail services can be partially attributed to how they increase efficiency and consumer ease of use while maintaining a similar structure to preexisting retail formats. E-retail services can be roughly categorized into two broad categories: (1) services owned by sellers where only the sellers' goods or services are sold ("Seller Operated Marketplace") and (2) services where sellers can list their goods or services in an aggregated marketplace ("Online Marketplace"). Seller Operated Marketplaces do not face the same counterfeiting issues as Online Marketplaces because the sellers themselves list the products sold on their websites, preventing third parties from listing counterfeit goods without a website operator's knowledge.

Online Marketplaces, however, are at a high risk of listing counterfeit goods.¹⁰ In 2021, harm from counterfeit goods totaled roughly \$54.1 billion in sales.¹¹ Online Marketplaces allow a wide range of sellers—from established companies to private individuals—to list their goods directly on the platforms. Additionally, Online Marketplaces typically require sellers to show some proof of identity, but this step fails to adequately prevent listing counterfeit goods.¹² Buyers are then able to see all listed items and purchase directly from the retailer. Many Online Marketplaces allow for decentralized listings. Decentralized listings allow sellers to directly interact with buyers rather than through an intermediary. This decentralization reduces sellers' costs by making it easier to create listings with greater exposure to potential customers. However, decentralization also facilitates the posting of counterfeit listings directly next to genuine listings—potentially causing confusion among buyers. While most Online Marketplaces take steps to ferret out fraudulent listings and punish offenders, many counterfeit listings still get through, causing harm to consumers and sellers of legitimate goods alike.¹³

B. *Trademark Law*

The listing and sale of counterfeit goods implicates trademark law. The Lanham Act governs trademark law.¹⁴ A trademark is a term, symbol, object, or

¹⁰ Brendan Case, *Amazon, Third-Party Sellers Spur Fake Goods, Group Says*, BLOOMBERG: BUS. (Oct. 13, 2021, 2:50 PM), <https://www.bloomberg.com/news/articles/2021-10-13/amazon-third-party-sellers-spur-counterfeit-boom-group-says>.

¹¹ Press Release, Buy Safe Am. Coal., *supra* note 8.

¹² For example, Amazon requires sellers to have the following: a business email address, an international credit card, a government-issued identification, tax information, a phone number, and a bank account. See *How To Start Selling on Amazon*, AMAZON, <https://sell.amazon.com/sell> [<https://perma.cc/8TV3-GNEX>] (last visited Mar. 17, 2023).

¹³ See Press Release, Buy Safe Am. Coal., *supra* note 8 (noting large volume of counterfeit goods sold by Online Marketplaces to consumers).

¹⁴ 15 U.S.C. § 1051.

sensation that designates the specific source or origin of a product or service.¹⁵ A mark does not need to identify specifically who the source is, it only needs to indicate that all products under the mark come from a single source.¹⁶ The main goals of trademark law are to encourage competition and protect consumers.¹⁷ Trademarks encourage competition through promoting integrity in the marketplace, disincentivizing producers from stealing marks, and incentivizing the creation of marks by increasing their value.¹⁸ Trademarks protect consumers because they allow consumers to know where goods come from, increasing the knowledge base consumers may draw upon in making consumption decisions.¹⁹ Trademarks also encourage a consistent level of quality.²⁰ This is because marks also assure consumers that all goods carrying a given mark are from the same source and therefore are of a similar quality.²¹

Trademark owners can police their own marks through trademark infringement litigation.²² The main test for trademark infringement is the likelihood of consumer confusion.²³ Courts have created factors to evaluate whether a likelihood of confusion is present.²⁴ One set of judicially created factors are:

1. strength of the mark;
2. proximity of the goods;
3. similarity of the marks;
4. evidence of actual confusion;
5. marketing channels used;
6. type of goods and the degree of care likely to be exercised by the purchaser;
7. defendant's intent in selecting the mark; and
8. likelihood of expansion of the product lines.²⁵

Courts analyze these factors holistically, with no prescribed weight or requirement of certain factors.²⁶ Different circuits use different factors to assess likelihood of confusion, but the factors circuits use do not differ significantly.²⁷

¹⁵ 1 ANNE GILSON LALONDE, GILSON ON TRADEMARKS § 1.03 (2022).

¹⁶ *Id.*

¹⁷ Trade-Mark Cases, 100 U.S. 82, 95 (1879) (arguing trademarks are useful to commerce and therefore should be regulated under Commerce Clause).

¹⁸ GILSON, *supra* note 15, at 2.

¹⁹ *Id.*

²⁰ *Id.*

²¹ *Id.*

²² See 15 U.S.C. §§ 1114, 1125 (describing trademark causes of action and remedies).

²³ See *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348 (9th Cir. 1979) (“When the goods produced by the alleged infringer compete for sales with those of the trademark owner, infringement usually will be found if the marks are sufficiently similar that confusion can be expected.”), *abrogated by* *Mattel, Inc. v. Walking Mountain Prods.*, 353 F.3d 792 (9th Cir. 2003).

²⁴ *Id.*

²⁵ *Id.* at 348-49.

²⁶ See *id.* at 349-54 (analyzing each factor separately and determining infringement based on all factors).

²⁷ See *Likelihood of Confusion*, U.S. PAT. & TRADEMARK OFF. (Feb. 19, 2021, 9:10 AM), <https://www.uspto.gov/trademarks/search/likelihood-confusion> [https://perma.cc/9RGF-VQHK].

A person can be liable for indirect trademark infringement even if they do not directly infringe.²⁸ Contributory trademark infringement requires someone to have directly infringed the trademark at issue; if there is no direct infringement, there cannot be any indirect infringement.²⁹ The Supreme Court held that for contributory trademark infringement generally, the contributory infringer must either intentionally induce another to infringe the trademark or, if the contributory infringer is a supplier, supply to someone they know or have reason to know is infringing.³⁰ Merely dealing with direct infringers, without more, does not equate to indirect infringement; the law requires the alleged indirect infringer to do more before liability attaches. In particular, the knowledge requirement for suppliers provides them increased protection, in part to help keep transaction costs low (imposing an extensive vetting requirement on suppliers would be prohibitively expensive and decrease economic activity).³¹ The existence and scope of this knowledge requirement is also particularly important for indirect infringement on e-retail platforms.³²

Trademark dilution is a newer and increasingly important issue in trademark rights. The Trademark Dilution Act of 1995 aims to protect famous marks from activities that may hurt the value of the mark but are not actually infringing.³³ The rationale for dilution protection is that while some acts may not actually infringe, the distinctiveness and goodwill associated with the mark may be damaged, thereby diluting the value of the mark.³⁴ An action in trademark dilution may be successful even when there is no actual consumer confusion or actual injury.³⁵ There are two types of trademark dilution: dilution by blurring and dilution by tarnishment.³⁶ Dilution by blurring occurs when a mark creates an association with a famous mark that damages the distinctiveness of the famous mark.³⁷ Dilution by tarnishment is an association that arises between a mark and a famous mark that damages the famous mark's reputation.³⁸ Rights in trademark dilution are broader and show how trademark rights have been expanding over time.³⁹ These broader rights play a role in the increasing value

²⁸ See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 103-05 (2d Cir. 2010).

²⁹ 3 LALONDE, *supra* note 15, § 11.02.

³⁰ *Inwood Lab'ys, Inc. v. Ives Lab'ys, Inc.*, 456 U.S. 844, 854 (1982).

³¹ See Jessica L. Hilliard, Comment, *Rights Versus Commerce: Balancing Online Trademark Policing with the Emerging Online Marketplace*, 11 J. MARSHALL REV. INTELL. PROP. L. 217, 233-34 (2011) (describing how costly burden of policing marks falls mostly on mark owners).

³² See *infra* Section I.C.

³³ 15 U.S.C. § 1125(c).

³⁴ *Id.*

³⁵ 2 LALONDE, *supra* note 15, § 5A.01.

³⁶ *Id.*

³⁷ *Id.*

³⁸ *Id.*

³⁹ See Robert N. Klieger, *Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection*, 58 U. PITT. L. REV. 789, 811 (1997) (arguing antidilution laws today grant in gross property right).

companies place on trademarks. Because of this increased value, proper protection of trademarks is more vital than ever.

C. *Contributory Liability in the E-retail Context*

This Note focuses on contributory trademark liability for e-retail platforms, a context that poses unique hurdles to adequate protection. Importantly, virtual sales do not allow for prepurchase inspection (especially for goods that are not expensive enough to incentivize intense prepurchase research).⁴⁰ Lack of inspection makes it difficult for consumers to discern whether a good is legitimate or counterfeit before purchasing. For example, a consumer who is considering purchasing a Gucci bag from a person in an alley can use many clues to discern that the bag is likely a fake. In contrast, a counterfeit bag listed on Amazon next to legitimate bags is much more difficult for the consumer to evaluate presale. This information asymmetry places a higher burden on e-retail operators to ensure counterfeits are not present on their platforms. Presumably, hosting the listings puts e-retailers in a better position than the consumers to monitor for counterfeit goods.

Courts recently grappled with the issue of contributory trademark liability for e-retailers in *Tiffany (NJ) Inc. v. eBay Inc.*⁴¹ In *Tiffany*, luxury jewelry brand Tiffany sued eBay for not doing enough to keep fake Tiffany goods from being sold on its platform (Tiffany did not list any of its goods on eBay's platform).⁴² eBay did establish anticounterfeiting measures, including an antifraud program and its Verified Rights Owner Program, to allow potentially infringing items to be removed by eBay.⁴³ Despite the measures taken by eBay, Tiffany alleged contributory trademark infringement because eBay was unable to catch all instances of counterfeit Tiffany articles and argued that eBay's general knowledge of counterfeit Tiffany goods on its site was sufficient to attach liability to eBay.⁴⁴

Ultimately, the Second Circuit rejected Tiffany's general knowledge argument and found that contributory trademark infringement requires a higher quantum of knowledge.⁴⁵ In other words, a platform's general knowledge that third parties are selling counterfeit goods is not enough to attach liability; the platform must have knowledge of specific infringing listings or listings that will

⁴⁰ See *How Buying on Amazon.com Works*, INVESTOPEDIA (July 27, 2021), <https://www.investopedia.com/articles/personal-finance/070215/how-buying-amazoncom-works.asp> [<https://perma.cc/W5LF-9VBW>] (discussing order process and how customer completes entire purchasing process before getting hands on item).

⁴¹ 600 F.3d 93, 103 (2d Cir. 2010) (determining whether eBay was liable for contributory trademark infringement).

⁴² *Id.* at 101.

⁴³ *Id.* at 99 (describing anticounterfeiting measures taken by eBay).

⁴⁴ *Id.* at 101. Tiffany also sued for direct trademark infringement and dilution; however, those claims also failed and are not relevant to the contributory aspect of the case.

⁴⁵ *Id.* at 107.

infringe in the future.⁴⁶ The court in *Tiffany* looked at the actions eBay took to reduce infringement and the takedown of known infringing articles as the basis for its determination that there was no specific knowledge.⁴⁷ This knowledge requirement is similar to the standard for contributory copyright liability under the Digital Millennium Copyright Act (“DMCA”).⁴⁸ Therefore, *Tiffany* effectively created a safe harbor for e-retail platforms that is similar to the storage safe harbor under the DMCA in the copyright sphere.

Courts have since explored the contours of the *Tiffany* safe harbor. In *BMW of North America, LLC v. Rocco*,⁴⁹ the United States District Court for the Central District of California refused to extend the safe harbor to capture resellers.⁵⁰ There, plaintiff BMW sued defendant Adam Rocco, an internet reseller who listed and sold counterfeit BMW parts.⁵¹ The court did not extend the *Tiffany* safe harbor to Rocco because, unlike eBay in *Tiffany*, Rocco was able to inspect the counterfeit goods before selling them and was therefore not a venue merely facilitating the sale of goods.⁵² A key aspect of this analysis is that courts should give an e-retail platform extensive leeway only when its knowledge base is limited and gathering information would be unduly burdensome.⁵³ However, this framework incentivizes e-retailers to know less in order to make falling into the safe harbor more likely. That, coupled with the financial incentives of having counterfeit goods on their platforms (revenue from sales of counterfeit goods), creates a perverse incentive for e-retailers to take the minimum steps to fall within the generous safe harbor while still allowing counterfeits to exist out of sight and out of mind.⁵⁴ Other courts have also continued to fine tune the requirements initially set forth in *Tiffany*.⁵⁵ Currently, the *Tiffany* safe harbor protects many e-retailers, and—perhaps as a result—many sellers list and sell counterfeit goods online.⁵⁶

⁴⁶ *Id.*

⁴⁷ *Id.* at 107-09.

⁴⁸ *See* *Viacom Int’l, Inc. v. YouTube, Inc.*, 676 F.3d 19, 31 (2d Cir. 2012) (requiring subjective knowledge of specific infringing acts for liability to attach).

⁴⁹ No. CV 19-9285, 2020 U.S. Dist. LEXIS 217040 (C.D. Cal. Nov. 18, 2020), *aff’d*, No. 20-56272, 2021 U.S. App. LEXIS 34265 (9th Cir. Nov. 18, 2021).

⁵⁰ *Id.* at *12.

⁵¹ *Id.* at *2-3.

⁵² *Id.* at *12.

⁵³ *See* Hilliard, *supra* note 31, at 233 (discussing how burdensome general knowledge standard would be for eBay because eBay does not deal in goods directly).

⁵⁴ *See id.* (describing how *Tiffany* does not require Online Marketplaces to increase policing efforts).

⁵⁵ *See, e.g.*, *Mori Lee, LLC v. Sears Holdings Corp.*, No. 13cv3656, 2014 U.S. Dist. LEXIS 133820, at *7 (S.D.N.Y. Sept. 8, 2014); *H-D U.S.A., LLC v. SunFrog, LLC*, 311 F. Supp. 3d 1000, 1036-37 (E.D. Wis. 2018).

⁵⁶ *See* Press Release, Buy Safe Am. Coal., *supra* note 8.

II. WIDESPREAD HARMS FROM ONLINE COUNTERFEITING

A. *Economic Impacts of Online Counterfeiting*

Online Marketplaces pose unique risks for consumers and producers alike regarding counterfeit products. As discussed above, the decentralized nature of Online Marketplaces reduces the likelihood that consumers will be able to spot counterfeit goods.⁵⁷ This leads to economic losses for consumers because consumers may need to purchase replacements for counterfeit goods, given that low-quality counterfeits may break more easily, malfunction, or even endanger users, potentially leading to medical expenses.⁵⁸ Inadequate review of third-party listings on Online Marketplaces further exacerbates this problem. For example, Amazon does not review safety documentation of third-party listings.⁵⁹ These lax initial intake standards are even more troubling given the large quantity of third-party listings on Online Marketplaces.⁶⁰ Notably, third-party listings constitute a majority of Amazon's catalog.⁶¹

The COVID-19 pandemic highlighted the dangers of letting counterfeits run rampant on Online Marketplaces through the proliferation of counterfeit personal protection equipment, especially masks.⁶² Counterfeit N95 masks (those most capable of filtering out viral particles) popped up extensively on Online Marketplaces.⁶³ Ordinary consumers have a difficult time discerning which masks are genuine because of unfamiliarity with masks (the general public had little to no experience with masks before the pandemic began) and because of reliance on listed safety standards.⁶⁴ Consumers using counterfeit

⁵⁷ See OFF. OF STRATEGY, POL'Y & PLANS, *supra* note 2, at 24 (describing how decentralized importing helps counterfeiters spread risk). The importing and selling of many separate independent goods make counterfeit importing more pertinent to e-commerce.

⁵⁸ See Suthivarakom, *supra* note 7 (noting how counterfeit oven gloves caused many consumers to burn themselves during use). These noneconomic harms have serious implications for consumers. See Kevin Lewis, *The Fake and the Fatal: The Consequences of Counterfeits*, 17 PARK PLACE ECONOMIST 47, 48-49 (2009) (describing life-threatening risks from counterfeit pharmaceuticals and machine parts). International trade has strained U.S. customs and allowed countries with higher levels of counterfeiting to permeate the U.S. market. *Id.* at 50-51.

⁵⁹ Suthivarakom, *supra* note 7 ("Amazon isn't reviewing safety documentation before a product gets posted to the site by third-party sellers, allowing unsafe car seats to slip through.").

⁶⁰ *Id.*

⁶¹ *Id.*

⁶² Jacobs, *supra* note 9.

⁶³ *Id.* ("All but a handful of the 50 best-selling KN95 masks on Amazon are plagued by similar problems . . . [In one] month, companies that make or sell masks of dubious quality racked up almost \$34 million in sales.").

⁶⁴ *Id.*

masks may have a higher risk of contracting the virus.⁶⁵ As the world has seen, increased risk to a large group of people can have devastating effects.

Online counterfeiting also harms producers of legitimate goods. For one, those producers lose sales to counterfeiters.⁶⁶ This loss occurs because counterfeit sales will displace at least some sales by legitimate producers. While it is true that buyers may go back and repurchase goods from the legitimate producer and triage some of the losses the seller suffers, that mitigating relief is not guaranteed (especially across various product classes) and therefore does not come close to making the original seller whole.⁶⁷

Producers can also suffer counterfeiting harm through trademark dilution. Dilution can occur when consumers who purchased counterfeit goods never realize that they are counterfeit.⁶⁸ In these scenarios, consumers falsely attribute the lack of quality or safety present in the counterfeit goods to the genuine article, not the counterfeiters.⁶⁹ This false attribution can cause consumers to value those brands less, diluting any relevant marks, and inspiring fewer purchases in the future.⁷⁰ More troublingly, even consumers who later learn that the good in question is a fake may still implicitly value the brand less because the whole scenario left a bad taste in their mouth.⁷¹ This indirect harm can lead to lower sales and profits for sellers who did not lower their standards or otherwise give reason to lose consumer confidence.⁷²

⁶⁵ See Robert H. Shmerling, *Masks Save Lives: Here's What You Need To Know*, HARV. HEALTH PUBL'G (Jan. 15, 2022), <https://www.health.harvard.edu/blog/masks-save-lives-heres-what-you-need-to-know-2020111921466> [<https://perma.cc/D832-GUFG>].

⁶⁶ See Press Release, Buy Safe Am. Coal., *supra* note 8.

⁶⁷ See Ryan Williams, *What Are the Biggest Impacts of Counterfeits on Brands?*, RED POINTS, <https://www.redpoints.com/blog/what-are-the-biggest-impacts-of-counterfeits-on-brands/> [<https://perma.cc/3YST-PQ3Y>] (last visited Mar. 17, 2023) (highlighting sales losses due to counterfeiting, including fashion industry's twenty-six billion euro in lost revenue each year).

⁶⁸ See Annie Palmer, *Amazon Is Shipping Expired Food, from Baby Formula to Old Beef Jerky, Scaring Consumers and Putting Big Brands at Risk*, CNBC: TECH (Oct. 22, 2019, 9:34 AM), <https://www.cnbc.com/2019/10/20/amazon-is-shipping-expired-baby-formula-and-other-out-of-date-foods.html> [<https://perma.cc/JR7X-96WT>] (providing examples of consumers blaming manufacturers of legitimate goods for expired and counterfeit goods).

⁶⁹ See *id.* (discussing reviewers of counterfeit goods on Amazon who believed goods were faulty but not counterfeit).

⁷⁰ See *id.* (noting consumer dismay at delivery of stale food and quoting one customer who stated, "If I had bought it the first time and it was like that, I never would have bought it at all").

⁷¹ See Williams, *supra* note 67 ("Red Points' research has shown that, when made aware of widespread counterfeiting of a brand, most consumers will see that brand as less desirable.").

⁷² OFF. OF STRATEGY, POL'Y & PLANS, *supra* note 2, at 7 (counterfeiting may "diminish the reputations and trustworthiness of U.S. products and producers"). This reduction in reputation can cause lower overall sales.

The unique circumstances surrounding counterfeits on Online Marketplaces make online counterfeiting more likely.⁷³ The Department of Homeland Security identified four factors that increase the likelihood of counterfeiters going online: (1) “Lower Startup and Production Costs,” (2) “Lower Marketing Costs,” (3) “Lower Distribution Costs,” and (4) “Consumer Attitudes and Perceptions.”⁷⁴ Online counterfeiters have lower startup costs because online storefronts are much easier and cheaper to create than traditional brick and mortar stores, especially given the Online Marketplaces’ incentives to increase the accessibility to new sellers.⁷⁵ Lower startup costs also make it harder to eliminate counterfeiters because of the ease of creating alternative stores or accounts.⁷⁶ Online counterfeiters reap much of the benefit of lower production costs—increasing profit margins and the ability to undercut legitimate options—that most counterfeiters achieve.⁷⁷

Online counterfeiters are also able to leverage lower marketing costs through stealing online promotional materials and by using the algorithms of Online Marketplaces and social media to funnel traffic to their fraudulent goods.⁷⁸ The anonymity given to online sellers also makes it easier for them to use the same stolen promotional materials in other accounts, further driving down marketing costs.⁷⁹ This ability to use cheap promotional materials across accounts also makes it easier for online counterfeiters to run multiple counterfeiting accounts simultaneously.⁸⁰

Online counterfeiters are also able to leverage the user-to-user sales format of Online Marketplaces to better facilitate sales of counterfeit goods.⁸¹ Unlike with

⁷³ *Id.* at 20-24.

⁷⁴ *Id.* at 12-15.

⁷⁵ *Id.* at 12 (describing how low fixed costs for online retail, proliferation of premade templates for stores, and ease of creating accounts reduces costs for online counterfeiters); *see also Starting an Online Business? Be Prepared for These 14 ‘Hidden’ Costs*, FORBES (July 20, 2020, 1:10 PM), <https://www.forbes.com/sites/forbesfinancecouncil/2020/07/20/starting-an-online-business-be-prepared-for-these-14-hidden-costs/> (“[S]tarting an online business is one of the most cost-effective options.”). The cost effectiveness of starting legitimate online businesses also demonstrates the relative cost effectiveness of starting illegitimate online businesses.

⁷⁶ *See* OFF. OF STRATEGY, POL’Y & PLANS, *supra* note 2, at 12 (describing how counterfeiting ventures can be set up fast and easily).

⁷⁷ *See id.* at 12-13 (describing counterfeiters’ use of low-cost production processes and use of unsafe and underpaid labor).

⁷⁸ *Id.* at 13.

⁷⁹ *Id.* (describing benefits of anonymity for online counterfeiters); *see also* INT’L TRADEMARK ASS’N, ADDRESSING THE SALE OF COUNTERFEITS ON THE INTERNET 7 (2017), https://www.inta.org/wp-content/uploads/public-files/advocacy/committee-reports/Addressing_the_Sale_of_Counterfeits_on_the_Internet_021518.pdf [<https://perma.cc/LP7V-UG95>] (describing online counterfeiters’ ability to remain anonymous throughout every aspect of sales processes).

⁸⁰ *See* OFF. OF STRATEGY, POL’Y & PLANS, *supra* note 2, at 13 (describing online counterfeiters’ use of multiple online accounts simultaneously).

⁸¹ *Id.*

traditional counterfeiting, where goods (especially foreign ones) are shipped *en masse* to distribution centers, many online sales are sent by mail to the user directly.⁸² Large shipments typically get more inspection compared to air parcels.⁸³ In light of these realities, online counterfeiters are increasingly shifting to distributing counterfeit items through air parcel delivery to great success.⁸⁴

Consumer respect and trust for many Online Marketplaces also assist online counterfeiters.⁸⁵ Online Marketplaces typically lack the red flags that consumers often associate with counterfeit goods, leading to an implicit trust in the legitimacy of the listings they encounter on Online Marketplaces.⁸⁶ Some red flags for the presence of counterfeit goods are “suspicious location of the seller, poor quality packaging, or discount pricing.”⁸⁷ The first two of those examples do not apply to online sales at all and the discount pricing can be shifted from a red flag to an inducement of counterfeit sales. This can happen because consumers who trust the platform may see discounted prices as a way to save or as a benefit of shopping online, not as an indication that the goods are counterfeit. Online counterfeiters are also able to effectively disguise their listings to look legitimate, leading to third-party sales on Online Marketplaces comprising 39% of all unwitting purchases of counterfeited goods.⁸⁸

B. *Actions Taken by Online Marketplaces*

Online Marketplaces have not been completely idle regarding the proliferation of counterfeit goods on their platforms. Although many smaller Online Marketplaces may not have the same resources as Amazon and thus may be less effective at policing counterfeits, Amazon’s position as a market leader⁸⁹ makes it a good case study for the types of preventative actions that are being taken. Amazon laid out its anticounterfeiting measures in its 2021 Brand

⁸² *Id.* at 13-14 (explaining that distributing counterfeits across series of small packages lowers risk of seizure).

⁸³ *See id.* at 14 (noting over 500 million packages are shipped via mail parcel each year); OECD & EUIPO, MISUSE OF SMALL PARCELS FOR TRADE IN COUNTERFEIT GOODS 18 (2018), <https://www.oecd-ilibrary.org/docserver/9789264307858-en.pdf> [<https://perma.cc/28H4-46W4>] (using cost-benefit analysis to explain customs officials’ lower likelihood of rigorously inspecting smaller parcels).

⁸⁴ OFF. OF STRATEGY, POL’Y & PLANS, *supra* note 2, at 14 (explaining factors that have increased viability of distributing counterfeits through air parcel delivery); *see also* OECD & EUIPO, *supra* note 83, at 53.

⁸⁵ OFF. OF STRATEGY, POL’Y & PLANS, *supra* note 2, at 15 (“Sellers on large well-known platforms rely on the trust that those platforms hosting of the marketplace elicits.”).

⁸⁶ *Id.* at 14 (listing some “red flag” indicators typically associated with counterfeit goods, such as “suspicious location of the seller, poor quality packaging, or discount pricing”).

⁸⁷ *Id.*

⁸⁸ *Id.* at 15.

⁸⁹ Lauren Thomas, *As E-commerce Sales Proliferate, Amazon Holds On to Top Online Retail Spot*, CNBC: RETAIL (June 19, 2021, 11:52 AM), <https://www.cnbc.com/2021/06/18/as-e-commerce-sales-proliferate-amazon-holds-on-to-top-online-retail-spot.html> [<https://perma.cc/KTY6-HXNQ>].

Protection Report.⁹⁰ There, Amazon provides a three-prong approach: (1) proactively acting to impede false listings, (2) empowering brands to police their own marks, and (3) vigorously holding counterfeiters accountable.⁹¹

Part of Amazon's proactive approach is its use of machine learning and human review to verify potential sellers' identities before they can sell on Amazon.⁹² That prelisting screening process requires prospective sellers "to provide a government-issued photo ID and information about their identity, location, taxpayer information, bank account, credit card, and more."⁹³ Amazon touts the robustness of its screening, noting that only 6% of new account registrations passed its screens.⁹⁴ Amazon also teams with payment providers to more accurately trace where funds from sales ultimately end up, reducing the counterfeiters' ability to hide the money trail and avoid detection.⁹⁵ Additional monitoring occurs after sellers create accounts.⁹⁶ If Amazon identifies a bad actor at any time, it closes the account, and withholds funds while an investigation is carried out.⁹⁷

Amazon also created a service, called "Brand Registry," to help trademark holders police their brands themselves.⁹⁸ This tool, which is available to brands regardless of whether they sell on Amazon, allows brand owners to have greater control over the product details of pages and allows Amazon to utilize automated protections more efficiently.⁹⁹ Amazon also implemented a serialization service that creates a 2D code that Amazon scans to verify authenticity.¹⁰⁰ If a good fails

⁹⁰ AMAZON, BRAND PROTECTION REPORT 3 (2021), <https://assets.aboutamazon.com/96/a0/90f229d54c8cba5072b2c4e021f7/amz-brand-report.pdf> [<https://perma.cc/XFX5-U67D>] (outlining Amazon's anticounterfeiting efforts through three strategies: (1) robust proactive controls, (2) powerful tools for brands, and (3) holding counterfeits accountable).

⁹¹ *Id.*

⁹² *Id.* at 5.

⁹³ *Id.*

⁹⁴ *Id.* Amazon also notes that it stopped six million new account registrations before those sellers were able to make a listing, an increase from 2.5 million in the previous year. *Id.*

⁹⁵ *Id.* at 6.

⁹⁶ *Id.*

⁹⁷ *Id.* (noting that if Amazon identifies bad actor, Amazon immediately closes that seller's account, withholds disbursement of funds, and determines if new information brings related accounts under suspicion).

⁹⁸ *Id.* at 8 ("In 2017, we launched Amazon Brand Registry, a free service that gives a brand owner—regardless of whether they sell in our store—access to a set of powerful tools that help them manage and protect their brand and intellectual property rights."); *Get Started in Three Steps*, AMAZON, <https://brandservices.amazon.com/brandregistry/eligibility> [<https://perma.cc/3RET-7543>] (last visited Mar. 17, 2023) (describing eligibility requirements for participation in Amazon's Brand Registry).

⁹⁹ AMAZON, *supra* note 90, at 8.

¹⁰⁰ *Id.*; see also *Amazon Expands Product Serialization Service to More Countries*, MKTS. INSIDER (July 10, 2019, 11:07 AM), <https://markets.businessinsider.com/news/stocks/amazon-expands-product-serialization-service-to-more-countries-1028343092> [<https://perma.cc/3N9N-N9YR>] (describing increased use of Amazon's serialization service).

the authenticity scan, Amazon pulls the good and investigates further.¹⁰¹ Amazon also implemented Project Zero, an effort to eliminate counterfeits on Amazon.¹⁰² This effort is a combination of Amazon’s automated proactive protections—allowing brands to directly remove listings from Amazon—and implementing serialization.¹⁰³ Amazon also implemented tools to help brands protect their utility patents and acquire intellectual property rights.¹⁰⁴ Amazon also opened communication with brands and associations in various industries to learn more about how to protect brands.¹⁰⁵

In 2020, Amazon created its Counterfeit Crimes Unit to catch and punish counterfeiters.¹⁰⁶ This unit operates globally, performs independent and joint investigations, refers cases to law enforcement, and engages in civil litigation against counterfeiters.¹⁰⁷ These joint investigations with brands have led to multiple joint lawsuits.¹⁰⁸ Starting in 2020, Amazon began reporting all confirmed counterfeiters to relevant enforcement agencies.¹⁰⁹ Further, it began destroying all counterfeit goods found in fulfillment centers.¹¹⁰ In November 2020, Amazon launched a joint operation with the National Intellectual Property Rights Coordination Center (“IPR Center”) aimed at preventing counterfeits

¹⁰¹ AMAZON, *supra* note 90, at 8.

¹⁰² *Id.* at 9.

¹⁰³ *Id.*

¹⁰⁴ *Id.* at 10-11.

¹⁰⁵ *Id.* at 12. *But see* Matt Day, *At Amazon, Some Brands Get More Protection from Fakes than Others*, BLOOMBERG: TECH. (Oct. 18, 2021, 10:00 AM), <https://www.bloomberg.com/news/articles/2021-10-18/at-amazon-com-some-brands-get-more-protection-than-others?leadSource=uverify%20wall> (discussing how Amazon’s anticounterfeiting efforts are more protective of larger brands than smaller brands).

¹⁰⁶ AMAZON, *supra* note 90, at 14; Annie Palmer, *Amazon Says a New ‘Counterfeit Crimes Unit’ Will Work with Law Enforcement To Take On Fraudsters*, CNBC: TECH (June 24, 2020, 3:57 PM), <https://www.cnbc.com/2020/06/24/amazon-says-counterfeit-crimes-unit-to-work-with-law-enforcement.html> [<https://perma.cc/9CCP-H498>] (reporting Amazon’s Counterfeit Crimes Unit includes “former federal prosecutors, investigators and data analysts”).

¹⁰⁷ AMAZON, *supra* note 90, at 14 (“Counterfeit Crimes Unit is a global team dedicated to holding bad actors accountable by building and referring cases to law enforcement, undertaking independent investigations or joint investigations with brands, and pursuing civil litigation against bad actors.”).

¹⁰⁸ *Id.* For some examples of lawsuits arising from the Counterfeit Crimes Unit, see *Amazon.com, Inc. v. Ackary*, No. 21-cv-01512, 2022 U.S. Dist. LEXIS 64190, at *5 (W.D. Wash. Apr. 6, 2022) (granting motion for plaintiff to subpoena defendants for information regarding their “true identities and locations”); and *Amazon Counterfeit Crimes Unit Reaches Settlement with Influencers Who Ran Social Media Counterfeiting Scheme, Permanently*, BLOOMBERG: BUS. (Sept. 30, 2021, 9:16 AM), <https://www.bloomberg.com/press-releases/2021-09-30/amazon-counterfeit-crimes-unit-reaches-settlement-with-influencers-who-ran-social-media-counterfeiting-scheme-permanently> [<https://perma.cc/M2Q3-SBD7>] (announcing settlement that permanently banned counterfeiters from Amazon and awarded Amazon money to use for anticounterfeiting awareness).

¹⁰⁹ AMAZON, *supra* note 90, at 15.

¹¹⁰ *Id.*

from saturating the U.S. market.¹¹¹ A big part of this operation involved the sharing of data amongst the two entities.¹¹² Amazon also joined forces with the IPR Center to create a private information exchange amongst the main participants in Online Marketplaces to better catch counterfeiters.¹¹³

While Amazon has implemented some robust anticounterfeiting measures—and is spending over 700 million dollars per year to protect its platform from fraud and abuse—many sellers are still marketing counterfeit goods on Amazon.¹¹⁴ In fact, Amazon admits that the actions it has taken are insufficient to end online counterfeiting without extensive outside help.¹¹⁵ While Amazon's programs seem quite powerful, they are often optional and not every brand chooses to opt in.¹¹⁶ Having participation rely on affirmatively opting in reduces the number of participating brands.¹¹⁷ Therefore, counterfeiting can still proliferate in the face of robust and effective programs because nonparticipating brands still sell large volumes of goods.¹¹⁸ Further complicating Online Marketplaces' steps to stop counterfeiting on their platforms is the positive incentive they get from having some counterfeiting present. This manifests because Online Marketplaces get a similar profit from a genuine and counterfeit

¹¹¹ *Id.*; see also IPR Center, *Amazon Launch 'Operation Fulfilled Action' To Stop Counterfeits*, NAT'L INTELL. PROP. RTS. COORDINATION CTR., <https://www.iprcenter.gov/news/ipr-center-amazon-launch-operation-fulfilled-action-to-stop-counterfeits> [<https://perma.cc/MX7T-25FD>] (last visited Mar. 17, 2023) (announcing IPR Center's partnership with Amazon to fight illegal counterfeiting).

¹¹² AMAZON, *supra* note 90, at 15 (“By sharing information such as physical addresses, supply routes, shippers, consignees, and other potential fraud identifiers, Amazon and the IPR Center more quickly and effectively stop and prevent counterfeits from reaching consumers not only in our store, but across the retail industry.”).

¹¹³ *Id.*

¹¹⁴ *Id.* at 3 (describing Amazon's “robust proactive” anticounterfeiting controls, including investing over \$700 million “to protect our store from fraud and abuse”); Suthivarakom, *supra* note 7.

¹¹⁵ AMAZON, *supra* note 90, at 3 (asking for increased government intervention, higher funding for enforcement agencies, and increased incarceration of counterfeiters).

¹¹⁶ *Id.* at 9. As of August 2020, over 10,000 brands have enrolled in Amazon's Project Zero initiative. Todd Bishop, *Amazon Expands 'Project Zero' Anti-counterfeit Program That Bezos Cited in Antitrust Hearing*, GEEKWIRE (Aug. 10, 2020, 9:00 PM), <https://www.geekwire.com/2020/amazon-expands-project-zero-anti-counterfeit-program-bezos-cited-antitrust-hearing/> [<https://perma.cc/L7JC-RELE>]. While 10,000 brands may sound like a lot, given the vast number of retailers selling through Amazon, that total is a fraction of all brands on Amazon.

¹¹⁷ See Betty Joyce Nash, *Opt In or Opt Out?*, REGION FOCUS, Winter 2007, at 28, 30 (describing automatic enrollment as better at inducing participation in 401k plans because of human tendency toward procrastination). The greater efficacy of automatic enrollment versus requiring opting in is a phenomenon discovered by behavioral economists and applies to a variety of decisions. *Id.*

¹¹⁸ See AMAZON, *supra* note 90, at 9.

article.¹¹⁹ Having only genuine articles (which often cost more) could reduce Online Marketplaces' profits, which cuts against their business model. However, too much counterfeiting can lead to consumer dissatisfaction, distrust, and lower sales.¹²⁰ This incentive structure leads Online Marketplaces to take public steps to combat counterfeiting to assure consumers they can be trusted, but not going as far as possible to reap some of the residual profits from counterfeiting.

C. *Proposed Solutions to Counterfeiting on Online Marketplaces*

Both scholars and Congress understand that online counterfeiting is a problem in dire need of a solution. Unfortunately, no effective solution has yet been implemented. Current proposals, both scholarly and legislative, are in some ways improvements over the current state of affairs; however, none of them are wholly able to solve this deep-rooted issue. A recently enacted bill is also insufficient.¹²¹ This Section analyzes current proposals, identifying what they get right and where they go astray.

The first scholarly proposal suggests ending any notice and takedown scheme in favor of increasing the monitoring requirements on the intermediaries.¹²² The goal of this setup is to make it easier to hold Online Marketplaces contributorily liable, thereby incentivizing more proactive actions by Online Marketplaces.¹²³ Arguably, such a legislative decision would have lower enforcement costs than the current judicial approach.¹²⁴ Shifting the burden toward Online Marketplaces would increase the costs for Online Marketplaces; underlying this proposal is the idea that it is only fair to increase such costs for Online Marketplaces in light of their massive revenues.¹²⁵

While this proposal is not without merit, it ultimately is not the best solution to this problem. Heightening standards for Online Marketplaces may be theoretically simple and easy to implement, but it is too blunt of an approach to be truly effective. Increasing the standards too much for Online Marketplaces will make it more difficult and expensive for Online Marketplaces to function.

¹¹⁹ If a product is sold on an Online Marketplace, the Online Marketplace gets its cut of the purchase regardless of whether the item is a counterfeit or not. *See* Jay Greene, *How Amazon's Quest for More, Cheaper Products Has Resulted in a Flea Market of Fakes*, WASH. POST (Nov. 14, 2019, 9:00 AM), <https://www.washingtonpost.com/technology/2019/11/14/how-amazons-quest-more-cheaper-products-has-resulted-flea-market-fakes/> (noting Amazon keeps same "cut of the sales of third-party sellers regardless of whether the product is counterfeit").

¹²⁰ *See* HEMA VITHLANI, OECD, *THE ECONOMIC IMPACT OF COUNTERFEITING* 23 (1998), <https://www.oecd.org/sti/ind/2090589.pdf> [<https://perma.cc/V832-XEJK>] (noting counterfeiting's ability to harm consumer goodwill toward trademark holders).

¹²¹ Consolidated Appropriations Act, 2023, Pub. L. No. 117-328, § 301, 136 Stat. 4459, 5555-63 (2022).

¹²² Casey L. Tripoli, Note, *Fashion Forward: The Need for a Proactive Approach to the Counterfeit Epidemic*, 41 *BROOK. J. INT'L L.* 875, 912-13 (2016).

¹²³ *See id.* at 913.

¹²⁴ *Id.* at 914.

¹²⁵ *Id.* at 913-14.

This issue is even more severe for potential new Online Marketplaces because such an approach will increase startup costs, limiting the creation of new businesses and disincentivizing potentially economically smart risks (because the specter of liability can lead to safer but less dynamic decisions). Increased startup costs would also further consolidate market power in the largest Online Marketplaces, increasing the likelihood that those Online Marketplaces will use their market power to harm consumers.¹²⁶ While increasing the incentives for Online Marketplaces to police their marketplaces themselves is important to slow and eventually stop counterfeiting in Online Marketplaces, such a blanket approach is not ideal.

Another proposal suggests importing a safe harbor scheme like the DMCA's scheme for copyright and adding affirmative anticounterfeiting measures to qualify for the safe harbor.¹²⁷ To fall under the DMCA copyright storage safe harbor, service providers must: (1) have no actual knowledge of specific instances of infringing materials; (2) not have received any financial benefit that is directly attributable to the infringing activity; and (3) promptly takedown any potentially infringing material once notified.¹²⁸ If a service provider satisfies those requirements, a court will not find the provider contributorily liable for copyright-infringing actions taken by the service provider's users.¹²⁹ This proposal suggests bringing a similar scheme to trademarks, largely to increase cooperation between Online Marketplaces and trademark holders.¹³⁰ However, the different type of harm coming from trademark infringement suggests that an affirmative requirement to take anticounterfeiting measures be added to the safe harbor entrance requirements.¹³¹

While this proposal is a good start and would likely have a positive effect, it does not go far enough to reduce online counterfeiting by a meaningful amount. After *Tiffany*, courts only find Online Marketplaces liable for contributory

¹²⁶ See Marc Jarsulic, *Using Antitrust Law To Address the Market Power of Platform Monopolies*, CTR. FOR AM. PROGRESS (July 28, 2020), <https://www.americanprogress.org/article/using-antitrust-law-address-market-power-platform-monopolies/> [<https://perma.cc/H9HQ-3JZR>] (describing large market capitalization of Amazon and other online platforms and how existing barriers to entry potentially allow for anticompetitive behaviors to take place). Amazon captures an estimated 52.4% of U.S. online retail spending. *Id.* There is evidence that Amazon favors third-party sellers who are part of the Fulfillment by Amazon service, which is "a service that allows these third-party sellers to warehouse and deliver their goods using Amazon logistics, even when they are not the lowest price offered." *Id.* Further barriers to entry allow Amazon to take more anticompetitive actions.

¹²⁷ Jillian de Chavez, Note, *Building a Trademark Safe Harbor for Contributory Counterfeiting Liability After Tiffany v. eBay*, 86 ST. JOHN'S L. REV. 249, 273-74 (2012).

¹²⁸ See 17 U.S.C. § 512(c); de Chavez, *supra* note 127, at 271.

¹²⁹ de Chavez, *supra* note 127, at 271-72 ("If the online service provider satisfies these requirements, it will not be liable for infringement by its users.").

¹³⁰ *Id.* at 272 (arguing trademark law could benefit from safe harbor provision because it would encourage cooperation between trademark owners and Online Marketplaces).

¹³¹ *Id.* at 272-74 (arguing trademark harm, unlike copyright harm, does not necessarily end when takedown occurs).

trademark infringement upon a showing of particular knowledge, so importing that requirement will not provide Online Marketplaces with much more protection.¹³² Additionally, many Online Marketplaces already take affirmative anticounterfeiting measures (including eBay and Amazon), and counterfeit goods still run rampant on those platforms.¹³³ Therefore, while having that affirmative requirement may help on the margins, it is not enough on its own to fully solve the problem.

Another proposal also suggests importing much of the DMCA into the scheme for contributory trademark liability for Online Marketplaces.¹³⁴ This proposal alters the notice and takedown requirement and suggests a notice and notice requirement wherein the service provider would forward the infringement claims to the proposed infringer.¹³⁵ This would reduce some of the anticompetitive effects that can come from abuse of notice and takedown procedures.¹³⁶ The proposal also highlights that because it is often more difficult to discern whether trademark infringement has occurred in a listing, having a notice and notice scheme allows the potential infringer to defend themselves and resolve the issue before experiencing the damaging effects from unwarranted takedowns.¹³⁷

This proposal would have some benefits; however, the scheme is not a perfect match for its proposed goals and for ending online counterfeiting. A big reason for the notice and notice proposal is to prevent abuse that notice and takedown regimes can incentivize. Unfortunately, abusive notices can still occur, although it is more difficult. Parties receiving notices must respond to them, and bombarding parties with tons of notices can be expensive and difficult to respond to, especially if the notified party is a smaller business. A notice and notice scheme would grant prolific counterfeiters an opportunity to post alternative listings and create new profiles before their faulty listings are removed from the relevant platform.

Finally, there have been two legislative proposals and one recently enacted bill aimed at online counterfeiting, but those legislative actions have been more limited in scope and are insufficient to stem the tide of counterfeit goods online.¹³⁸ The two proposed acts are (1) the Stop All Nefarious Toys in America

¹³² See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 107 (2d Cir. 2010) (laying out new knowledge requirement).

¹³³ See *id.* at 98-100; AMAZON, *supra* note 90, at 14-15.

¹³⁴ E. Jordan Teague, Note, *Promoting Trademark's Ends and Means Through Online Contributory Liability*, 14 VAND. J. ENT. & TECH. L. 461, 489-90 (2012).

¹³⁵ *Id.*

¹³⁶ *Id.* at 490 (“A ‘notice-and-notice’ system would reduce the potential for anti-competitive abuse of trademark rights, for sending a notice would not produce the instant result of content removal as under a ‘notice-and-takedown’ system.”).

¹³⁷ See *id.* at 488-90.

¹³⁸ See John H. Zacharia & Kari Kammel, *Congress's Proposed E-commerce Legislation for Regulation of Third-Party Sellers: Why It's Needed and How Congress Should Make It Better*, 21 U.C. DAVIS BUS. L.J. 91, 93 (2020); Consolidated Appropriations Act, 2023, Pub. L. No. 117-328, § 301, 136 Stat. 4459, 5555-63 (2022).

Act (“SANTA Act”) and (2) the Stopping Harmful Offers on Platforms by Screening Against Fakes in E-commerce Act of 2020 (“SHOP SAFE Act”).¹³⁹ The Integrity, Notification, and Fairness in Online Retail Marketplaces for Consumers Act (“INFORM Consumers Act”) was enacted as part of the Consolidated Appropriations Act, 2023 on December 29, 2022.¹⁴⁰

The SANTA Act is limited to new children’s products and requires sellers to “provide information relevant to the sourcing, distribution, or manufacturing of products of third-party sellers available to potential customers.”¹⁴¹ Violations of the SANTA Act would be deceptive trade practices under the Federal Trade Commission Act, increasing the burden on Online Marketplaces.¹⁴² While a robust bill for children’s toys, its narrow scope makes it inherently unfit to stop online counterfeiting more generally.¹⁴³ Merely expanding the scope would not fully solve the issues with the SANTA Act because of the increased monitoring costs it places on Online Marketplaces and the difficulty of verifying seller information.

The SHOP SAFE Act aims to increase contributory trademark liability for Online Marketplaces that sell counterfeit goods that threaten consumer health and safety.¹⁴⁴ This bill would create automatic liability for Online Marketplaces that sell, offer to sell, distribute, or advertise such goods; however, there is a safe harbor available.¹⁴⁵ To fall within the safe harbor, Online Marketplaces would have to: (1) make it easier for consumers and trademark holders to identify and sue third-party sellers;¹⁴⁶ (2) take both proactive and reactive steps to reduce counterfeit goods on the platform;¹⁴⁷ and (3) do all of the required steps before any infringing actions occur on that platform.¹⁴⁸ While also a robust bill, the SHOP SAFE Act suffers from limiting the types of goods it protects and placing too high of a liability burden on Online Marketplaces.¹⁴⁹ The SHOP SAFE Act would also place a high burden on Online Marketplaces, leading to some potential anticompetitive effects.

¹³⁹ Zacharia & Kammel, *supra* note 138, at 93.

¹⁴⁰ *New INFORM Consumers Act Imposes Seller Diligence and Disclosure Requirements for Online Marketplaces*, GIBSON DUNN (Jan. 5, 2023), <https://www.gibsondunn.com/new-inform-consumers-act-imposes-seller-diligence-and-disclosure-requirements-for-online-marketplaces/> [https://perma.cc/SLA8-DNEK].

¹⁴¹ Zacharia & Kammel, *supra* note 138, at 113.

¹⁴² *Id.*

¹⁴³ *See id.* at 114 (criticizing Act’s coverage of only children’s products for children twelve and under as too narrow).

¹⁴⁴ *Id.* (“The bill seeks to impose accountability upon e-commerce platforms for counterfeit goods that threaten consumers’ health and safety.”).

¹⁴⁵ *Id.* at 115.

¹⁴⁶ *Id.* For example, by requiring third-party sellers be available for service of process in the United States.

¹⁴⁷ *Id.* For example, by requiring Online Marketplaces to take due diligence steps to ensure third-party sellers neither list nor sell harmful goods on their platforms.

¹⁴⁸ *Id.* at 115-16.

¹⁴⁹ *See id.* at 116-18.

The INFORM Consumers Act is similar to the SANTA Act, but it broadens the scope of protection from toy sellers to all high-volume sellers.¹⁵⁰ One issue with this law is that online counterfeiters can evade its reach by creating multiple low-volume accounts, therefore never triggering the enhanced scrutiny reserved for high-volume retailers. The INFORM Consumers Act requires some verification documents and use of such documents may reduce this problem.¹⁵¹ However, the reliance on verification documents is troubling because the INFORM Consumers Act does not provide much detail on whether Online Marketplaces have an obligation to ensure the documents are authentic.¹⁵² A further weakness of the INFORM Consumers Act is that it suspends sellers who do not comply with the Act until they comply; this allows noncompliant sellers to simply create new accounts and continue their activities.¹⁵³

While there has been robust discussion on the best way to tackle online counterfeiting, a comprehensive solution has yet to be implemented. The passing of the INFORM Consumers Act is a step in the right direction, but it is too early to know what effect, if any, the law will have.¹⁵⁴ Given the proliferation of online counterfeiting and increasing consumer reliance on Online Marketplaces, it is becoming increasingly clear that there is much work to do to prevent massive harms to consumers, sellers, and Online Marketplaces in the future.

III. REDUCING ONLINE COUNTERFEITING WITH A DEPOSIT-BASED SOLUTION

A. *How a Deposit System Would Operate*

Some prior proposals took the DMCA as a starting point for good reason.¹⁵⁵ One reason for beginning with the DMCA storage safe harbor and its notice and takedown procedure is that it has been around since 1998.¹⁵⁶ This well-established regulatory environment allows for a baseline understanding of what

¹⁵⁰ *Id.* at 118-19 (defining high-volume seller as one “who, in any continuous 12-month period during the previous 24 months, has entered into 200 or more discrete sales or transactions of new or unused consumer products resulting in the accumulation of an aggregate total of \$5,000 or more in gross revenues” (quoting INFORM Consumers Act, S. 936, 117th Cong. § 2 (2021))). A higher threshold of \$20,000 or more in annual gross revenue on that Online Marketplace triggers the required public disclosure of contact information, minimizing the frequency of such disclosures. Consolidated Appropriations Act, 2023, Pub. L. No. 117-328, § 301, 136 Stat. 4459, 5555-63 (2022).

¹⁵¹ Zacharia & Kammel, *supra* note 138, at 120.

¹⁵² *See id.* (describing INFORM Consumer Act’s vagueness in explaining how to verify authenticity of submitted verification documents).

¹⁵³ § 301, 136 Stat. at 5555-63.

¹⁵⁴ The INFORM Consumers Act will not be effective until June 27, 2023 (180 days from its enactment on December 29, 2022). *Id.*

¹⁵⁵ *See de Chavez, supra* note 127, at 273-74; Teague, *supra* note 134, at 489-90; Tripoli, *supra* note 122, at 912-13.

¹⁵⁶ 17 U.S.C. § 512.

can be expected from the DMCA in the copyright context. Also, that knowledge allows for a better understanding of what can be improved.¹⁵⁷

However, the inefficiencies of the DMCA scheme in practice and the differences between copyright and trademark demand modifications to the DMCA regime. First, the knowledge requirement creates little incentive for online platforms to do more than the bare minimum to qualify for the safe harbor.¹⁵⁸ This incentive structure reduces some copyright infringement but does not go far enough. Second, the ease with which parties can file copyright notices creates an incentive for copyright holders, especially larger ones, to file many notices of dubious quality to hinder competition.¹⁵⁹ Such anticompetitive behavior hurts the vibrancy of expression on such platforms, contradicting the purpose of copyright protection.¹⁶⁰

The different goals of trademark law are further proof that simply overlaying the DMCA framework to govern trademark infringement is inefficient and may cause additional harm. Copyrighted works online are often infinitely consumable; for example, viewers can watch an online video repeatedly without diminishing its availability.¹⁶¹ If taken down, the rights holder loses any revenue they would have earned in the meantime; however, that loss only lasts for the length of time the work was not viewable. The inherent value of the copyright is not drastically affected once put back up. This is not true in the trademark context. If a valid good is taken down erroneously, a harm of lost sales while offline exists. However, that harm is not as easily remedied once a platform restores the valid listing because the time away from the market imposes costs

¹⁵⁷ There are concerns with the DMCA around floods of takedown requests being filed. That flooding in the copyright context is one reason that adding a deposit requirement to the trademark context will be beneficial. See BRUCE BOYDEN, *THE FAILURE OF THE DMCA NOTICE AND TAKEDOWN SYSTEM: A TWENTIETH CENTURY SOLUTION TO A TWENTY-FIRST CENTURY PROBLEM 1* (2013), <https://sls.gmu.edu/cpip/wp-content/uploads/sites/31/2013/08/Bruce-Boydén-The-Failure-of-the-DMCA-Notice-and-Takedown-System1.pdf> [<https://perma.cc/JA9T-PU2W>] (noting there were 6.5 million takedown notices sent each month in 2013).

¹⁵⁸ See *id.* at 3 (“The impossibility of keeping up with new uploads means that an online service can create a site aimed at and dedicated to hosting infringing copyrighted works, comply with every takedown notice, and still benefit from the safe harbor, as long as its intent remains hidden.”).

¹⁵⁹ See Amanda Reid, *Considering Fair Use: DMCA’s Takedown & Repeat Infringers Policies*, 24 *COMM’N L. & POL’Y* 101, 109 (2019) (discussing how DMCA incentivizes abusive takedown notices to hurt competitors).

¹⁶⁰ See U.S. CONST. art. I, § 8, cl. 8 (describing purpose of copyright to promote progress of science and art).

¹⁶¹ For example, physical copies of media can last for years, with the only limiting factor on use being the durability of the medium containing the copyrighted work. See *Longevity of Recordable CDs, DVDs, and Blu-rays—Canadian Conservation Institute (CCI) Notes 19/1*, GOV’T OF CAN., <https://www.canada.ca/en/conservation-institute/services/conservation-preservation-publications/canadian-conservation-institute-notes/longevity-recordable-cds-dvds.html> (last updated Jan. 7, 2020) (describing typical survival length of Blu-ray discs as between ten and fifty years).

on the good's seller, such as lost sales.¹⁶² Bad press or consumer association with trademark infringement (even if a seller is ultimately cleared of all wrongdoing) can also diminish the value of a brand, creating harm of a higher magnitude and longer duration.¹⁶³ These additional harmful effects, resulting from incorrect or abusive takedown notices, are reasons to add extra safeguards to protect trademark holders.

Accordingly, mere adoption of the DMCA would be ineffective; additional modifications are necessary. In this proposed legislative framework, trademark owners can flag potentially infringing goods and have them taken down by the Online Marketplace like under the DMCA.¹⁶⁴ However, when a trademark holder makes such a claim, they must pay a deposit to the Online Marketplace while the Online Marketplace adjudicates the dispute.¹⁶⁵ The Online Marketplace is the best party to adjudicate the initial claim because it is able to leverage its internal data to help calculate the deposit.¹⁶⁶ Trademark holders

¹⁶² Product recalls provide a similar timeline of goods being temporarily removed from the market before being later reinstated. For information on recalls, see Trevir I. Nath, *How Do Recalls Affect a Company?*, INVESTOPEDIA (Dec. 22, 2022), <https://www.investopedia.com/articles/investing/010815/how-do-recalls-affect-company.asp> [https://perma.cc/5XL2-KS5W] (including lost sales among various harms caused by product recalls).

¹⁶³ See *Burberry Ltd. UK v. Cohen*, No. LA CV12-02384, 2013 U.S. Dist. LEXIS 193844, at *5 (C.D. Cal. Mar. 18, 2013) (“[I]t is reasonable to infer that distribution of such a great number of counterfeit goods . . . risks harming the goodwill and value of Plaintiffs’ trademark and constitutes *irreparable* harm.” (emphasis added)).

¹⁶⁴ See *The DMCA Notice and Takedown Process*, COPYRIGHT ALL., <https://copyrightalliance.org/education/copyright-law-explained/the-digital-millennium-copyright-act-dmca/dmca-notice-takedown-process/> [https://perma.cc/9V5G-HE4M] (last visited Mar. 17, 2023) (describing how DMCA takedown process operates in copyright context).

¹⁶⁵ While a novel idea for trademark (or copyright) takedown schemes, the requirement of a deposit to disincentivize frivolous claims is not unheard of in other contexts. One example of this is a surety bond. See, e.g., Edward G. Gallagher & Mark H. McCallum, *The Importance of Surety Bond Verification*, 39 PUB. CONT. L.J. 269, 269 (2010) (“A surety bond is a contract involving three parties in which the surety promises to answer for the debt or default of another.”). The more general idea of imposing contractual costs on parties to reduce the likelihood of opportunistic behaviors has also been around since at least 1978. See Benjamin Klein, Robert G. Crawford & Armen A. Alchian, *Vertical Integration, Appropriable Rents, and the Competitive Contracting Process*, 21 J.L. & ECON. 297, 303 (1978) (“Explicit long-term contracts can, in principle, solve opportunistic problems, but, as suggested already, they are often very costly solutions.”). This deposit scheme, therefore, draws from and builds upon the conceptual foundations of these schemes.

¹⁶⁶ Amazon already includes “fraud prevention” as a use of user data in its privacy notice, so enlisting user data to fight counterfeiting is either already allowable under its privacy policy or would require a minor change that is within Amazon’s authority to implement. *Amazon.com Privacy Notice*, AMAZON, <https://www.amazon.com/gp/help/customer/display.html?nodeId=GX7NJQ4ZB8MHFRNJ> (last updated Jan. 1, 2023) (listing all types of user data Amazon collects and some uses of that data). Requiring use of data to help consumers would not be overly burdensome because Online Marketplaces already use data to benefit their bottom line. Requiring Online Marketplaces to use those same practices to better

unsatisfied with the Online Marketplace's decision would have the opportunity to file a formal complaint against the potential infringer and the Online Marketplace's determination could provide a factual baseline to help expedite that suit.¹⁶⁷ However, in the case of a formal complaint, the litigation duration will not be included in the size of the deposit and will be outside the scope of takedown procedures.¹⁶⁸ The deposit system allows for a formal complaint to go along normally. Once the dispute resolves, the online marketplace will deal with the deposit in one of two ways depending on whether the accused good infringed the mark. If the accused good infringed the mark, the online marketplace will refund the deposit to the asserting trademark owner. If the accused good does not infringe the mark, the online marketplace will reinstate the accused good and the asserting trademark owner forfeits the entire deposit. The Online Marketplace would then give the entire deposit to the owner of the good accused of infringing.

The size of the deposit is paramount to the success of the program. If it is too large, it can be used to assert rights by larger companies more easily—because the amount is less burdensome to them—putting smaller companies at a disadvantage. This disadvantage is even more harmful because a large benefit of Online Marketplaces is the access they provide to smaller businesses.¹⁶⁹ Having a deposit that is too small also can damage competition because companies, especially larger ones, can file many claims against competitors that they know will not succeed simply to deprive market access for a short time. While the smaller companies may get that money back afterwards, constant

fight fraud on their platforms would not be unreasonable. For an example of how platforms are utilizing user data, see Jon Markman, *Amazon Using AI, Big Data To Accelerate Profits*, FORBES (June 5, 2017, 9:39 AM), <https://www.forbes.com/sites/jonmarkman/2017/06/05/amazon-using-ai-big-data-to-accelerate-profits/?sh=59e812b16d55> (describing use of algorithms to curate selections for consumers); and Alexander Shartsis, *Dynamic Pricing: The Secret Weapon Used by the World's Most Successful Companies*, FORBES (Jan. 8, 2019, 9:30 AM), <https://www.forbes.com/sites/forbestechcouncil/2019/01/08/dynamic-pricing-the-secret-weapon-used-by-the-worlds-most-successful-companies/> (explaining Amazon uses machine learning and AI to implement dynamic pricing for goods).

¹⁶⁷ See 15 U.S.C. §§ 1114, 1125. Judges could utilize evidence regarding similarity of marks and other relevant factors in trademark litigation to make adjudication of those cases more efficient.

¹⁶⁸ As an alternative to directly advancing to costly and potentially lengthy litigation, Congress could also set up a trademark board to adjudicate these claims if the parties are unsatisfied with the Online Marketplace's decision. Congress recently created a similar board for copyright disputes, a board that could provide a template for a trademark board. See Dan Jasnow, Anthony Lupo & Matthew Mills, *Congress Establishes New Copyright Board To Resolve Small Claims and DMCA Disputes*, JD SUPRA (Feb. 1, 2021), <https://www.jdsupra.com/legalnews/congress-establishes-new-copyright-8435479/> [<https://perma.cc/63UT-HVNY>].

¹⁶⁹ See Lisa Montenegro, *The Importance of E-commerce for Small Businesses*, FORBES (Jan. 4, 2021, 7:40 AM), <https://www.forbes.com/sites/forbesagencycouncil/2021/01/04/the-importance-of-e-commerce-for-small-businesses/?sh=6910f5182312> (describing large benefit small businesses gained from e-commerce during COVID-19 disruptions).

harassment of this type could still have sizable anticompetitive effects.¹⁷⁰ Considering these issues with deposit size (and the asymmetric effects on different types of entities), a fixed deposit amount is ill-suited. Therefore, a better solution is a deposit that is more tailored to each situation.

There will be two deposit calculations made during each instance of claimed counterfeiting. The deposit that will ultimately be required is the lower of the two options. The first method of calculation consults the Online Marketplaces' average weekly sales that the accused infringer would be expected to lose if the listing were removed from the platform. Three weeks' worth of that quantity would serve as option one for the deposit. This period gives enough time for some review of the listing to make a preliminary determination of the quality of the claim. If the claim were to go to direct litigation, resulting damages (if any) would make up for the period starting after the three weeks and ending upon the final resolution of the dispute. The second way to calculate the deposit will be to determine 50% of the accuser's weekly revenue from the good they claim is being infringed. The deposit total would be that amount for three weeks. If specific data for the goods in question is indeterminate (either because of lack of sales data or by counterfeiters creating many small accounts), Online Marketplaces would utilize internal data to approximate the sales numbers for use in calculating deposits.¹⁷¹ The longer this scheme is in place, the more additional data Online Marketplaces will have to make more accurate approximations when circumstances require.¹⁷² The deposit amounts are chosen to serve as a meaningful deterrent from frivolous claims without being prohibitively large. Another benefit of the deposit system is that the deposit totals can be modified in practice to maximize the efficacy of the program.¹⁷³

¹⁷⁰ See *Is the DMCA's Notice-and-Takedown System Working in the 21st Century?: Hearing Before the Subcomm. on Intell. Prop. of the S. Comm. on the Judiciary*, 116th Cong. 12 (2020) [hereinafter Rives' Statement] (statement of Abigail A. Rives, Intellectual Property Counsel, Engine Advocacy and Research Foundation), <https://www.judiciary.senate.gov/imo/media/doc/Rives%20Testimony.pdf> [<https://perma.cc/LPR5-Z6PX>] (describing practice of using improper takedown notice to harass competitors and illustrating its potential to destroy a small business).

¹⁷¹ Amazon already uses consumer data and AI to tailor search results to benefit its sales and user experience. See *Amazon.com Privacy Notice*, *supra* note 166. Data that is leveraged to make suggestions is likely also able to be leveraged for the simpler task of counting how many of each good is sold over various periods of time. See Markman, *supra* note 166.

¹⁷² See Sara Brown, *Machine Learning, Explained*, MIT SLOAN SCH. OF MGMT. (Apr. 21, 2021), <https://mitsloan.mit.edu/ideas-made-to-matter/machine-learning-explained> [<https://perma.cc/Y67C-8G8H>] (explaining how machine learning models use data to become more accurate).

¹⁷³ Given the extensive use of data analytics, Online Marketplaces would be able to monitor for inefficiencies in the system and react accordingly. Given that Online Marketplaces are profit motivated entities who seek to maximize efficiency, this setup further aligns incentives between the parties for fast and efficient dispute resolution. See Sarah Kessler, *Amazon: This Company Built One of the World's Most Efficient Warehouses by Embracing Chaos*, QUARTZ, <https://classic.qz.com/perfect-company-2/1172282/this->

Having this dual structure for the deposits serves to ensure that all parties can afford a takedown and serves to ensure that the amount is not trivial. The first option will often be paid by larger companies because smaller companies are typically less able to afford a portion of a larger company's revenue from a given product. If the accused party were to receive this amount after an unsuccessful claim against them, they would get roughly the amount of money they would have made anyway, remedying the economic harm they suffered while their listing was down. The second option would be more often paid by smaller companies because they are more likely to have fewer total sales.

B. *Benefits of Implementation*

This system will help to reduce counterfeiting on Online Marketplaces and minimize anticompetitive effects that can accompany higher trademark policing. A general concern with trademark protection is anticompetitive effects coming from too strong rights or over policing of trademark rights.¹⁷⁴ A large concern with current proposals, particularly other DMCA based proposals, is that it incentivizes bad-faith trademark claims to hurt competitors and competition more broadly.¹⁷⁵ By filing many frivolous trademark infringement claims, trademark holders can get their competitors' goods taken off the platform for a time, hurting their sales while the goods are taken down.¹⁷⁶ Even if the goods are eventually put back up, the trademark holder took at least part of their competitors' sales.¹⁷⁷ Additionally, repeat frivolous claims could lead to harassed parties taking their goods off Online Marketplaces entirely to spare themselves the hassle.¹⁷⁸ Such concerns are warranted in the trademark space, as unfair and abusive takedown notices exist in the copyright space, and it is likely that similar issues will arise in the trademark space due to the heightened

company-built-one-of-the-worlds-most-efficient-warehouses-by-embracing-chaos/
[<https://perma.cc/T8NB-XUSE>] (last visited Mar. 17, 2023).

¹⁷⁴ See *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 10 (2d Cir. 1976) (explaining how protecting generic marks would create unearned monopolies).

¹⁷⁵ See Teague, *supra* note 134, at 478 (describing how murky good-faith requirement encourages frivolous or bad-faith takedown claims).

¹⁷⁶ See Rives' Statement, *supra* note 170, at 11 ("Empirical research indicates that approximately 30% of takedown requests are problematic.").

¹⁷⁷ While the claimant may not have gotten the sales that otherwise would have gone to the accused counterfeiter, the claimant is still responsible for depriving the accused of at least some of the sales that occurred during the period the goods were not actively listed on the platform.

¹⁷⁸ See Rives' Statement, *supra* note 170, at 23 ("75% [of those who received a takedown notice] said they would be less likely to contribute to online communities in the future."). This evidence of substantial chilling effects brought about by frivolous takedown claims in the copyright context suggests there would likely be similar chilling effects in the trademark context.

economic incentives to file frivolous claims.¹⁷⁹ In the trademark context, the trademark holder's good and the accused's good are substitutes for each other.¹⁸⁰ In contrast, competing works in the copyright context are not always direct substitutes because a consumer could reasonably consume both and get independent value from each.¹⁸¹ The existence of substitute goods makes frivolous claims more likely in the trademark context. This effect creates the incentive to get competitors' goods off the platform so all the competitor's sales will go to the party making the claim.¹⁸² Other proposals acknowledge this concern and have posited a bad-faith safeguard to prevent abuses of the system.¹⁸³ Unfortunately, such a standard is amorphous and lacks the teeth to stop abuses of a takedown system.¹⁸⁴ A bad-faith standard would be subjective and proving the required intent is prohibitively difficult. Simply showing that a trademark claim is unsuccessful cannot form the basis of a bad-faith allegation; showing actual malicious intent is required, which is very difficult to show in most cases.¹⁸⁵ Actually holding anticompetitive trademark holders liable for abuses under a bad-faith standard would be very difficult and would render the restraint worthless in most instances.¹⁸⁶

A deposit requirement would be a more robust check on malicious claims and constitute an effective deterrent against those claims without overly disincentivizing genuine claims. A deposit system is consistent; parties know how the deposit will be calculated and take that deposit cost into account when determining whether to file a claim.¹⁸⁷ That consistency will reduce incentives

¹⁷⁹ See Jennifer M. Urban & Laura Quilter, *Efficient Process or "Chilling Effects"?* *Takedown Notices Under Section 512 of the Digital Millennium Copyright Act*, 22 SANTA CLARA COMP. & HIGH TECH. L.J. 621, 629 (2006).

¹⁸⁰ See VITHLANI, *supra* note 120, at 5 (explaining counterfeit trademark goods are ones that cannot be distinguished from essential aspects of trademarked work, thus misleading customers).

¹⁸¹ See *Google LLC v. Oracle Am., Inc.*, 141 S. Ct. 1183, 1196 (2021) (explaining copyright protection extends only to expressions and not idea itself). Because there are multiple ways to express an individual idea, consumption of one expression of an idea does not extinguish the value of a separate expression to each individual consumer.

¹⁸² See *Unfair Competition*, CORNELL L. SCH.: LEGAL INFO. INST., https://www.law.cornell.edu/wex/unfair_competition [<https://perma.cc/79AJ-FRLL>] (last visited Mar. 17, 2023) (including "unauthorized substitution of one brand of goods for another" as form of unfair competition).

¹⁸³ See Teague, *supra* note 134, at 478.

¹⁸⁴ See Urban & Quilter, *supra* note 179, at 629 (discussing how bad-faith restrictions do not work in copyright area).

¹⁸⁵ See *id.* (noting how unrealistic it is to prove that accuser knows good is not infringing).

¹⁸⁶ See Timothy S. Chung, Note, *Fair Use Quotation Licenses: A Private Sector Solution to DMCA Takedown Abuse on YouTube*, 44. COLUM. J.L. & ARTS 69, 76-77 (2020) (describing how bad-faith standards for DMCA safe harbor are unclear and create high burden of proof against rights holders). The bad-faith standard also exists in the trademark context, and disproving an "honest mistake" response to a bad-faith accusation would be similarly difficult.

¹⁸⁷ See *Greene v. Lindsey*, 456 U.S. 444, 449 (1982) (describing importance of notice).

to file frivolous claims with an expectation of evading liability.¹⁸⁸ Another benefit of a deposit is that it is easy to apply. The deposit calculation is simple and having that payment be a deposit that is paid upfront will reduce any concerns with unruly trademark owners not paying upon a finding of no infringement.

The payment going to the injured party is a further benefit of this deposit system. As discussed above, frivolous claims can have strong adverse economic effects.¹⁸⁹ Abusers of a takedown system, especially abusers with large pockets, could choose to cause harm to competitors and swallow any monetary penalties they may face.¹⁹⁰ Abusers may do this because the long-term economic benefit from pushing competitors out of the marketplace could outweigh the economic harm of paying any penalties. A deposit system will remedy that issue because any money paid by a false claimant will go directly to the accused party. Making the accused party (close to) whole again will dramatically reduce any incentive to bully competitors. While not a guarantee, the risk of directly paying one of your competitors might also incentivize mark businesses to only file claims when they have a genuine belief that the other party is infringing their mark.

Having a deposit system also encourages Online Marketplaces and mark owners to cooperate more. This system creates a set of affirmative and detailed steps for both Online Marketplaces and trademark holders to follow, leading to more consistent and transparent interactions. Over time, these interactions can build rapport among trademark holders and Online Marketplaces, leading to more familiarity and trust throughout the process and more activity and faith in the process. Once parties build this rapport and familiarity, Online Marketplaces will also have a norms-based means to police fraudulent claims.¹⁹¹ Data will bolster accountability because Online Marketplaces can use their data to easily identify parties who are consistently making unsuccessful claims.¹⁹² By keeping

¹⁸⁸ See Twila Lukowiak & Jennifer Bridges, *Punishment Strategies: First Choice or Last Resort*, J. AM. ACAD. SPECIAL EDUC. PROS., Fall 2010, at 63, 64 (describing consistency as an important aspect of effective punishment strategies).

¹⁸⁹ See *supra* notes 173-79 and accompanying text.

¹⁹⁰ See Andrew Park, *The Endless Cycle of Corporate Crime and Why It's So Hard To Stop*, DUKE L. (Jan. 13, 2017), <https://law.duke.edu/news/endless-cycle-corporate-crime-and-why-its-so-hard-stop/> [<https://perma.cc/W6NA-2MYV>] (discussing financial penalties' limited effect on reducing violations in large corporations). The aim of the deposit system is to reduce violations by changing the recipient of the fines, or at least reduce the harm suffered by competing firms.

¹⁹¹ See David Mednicoff, *COVID-19 Shows the Power of Social Norms To Police Behavior*, NAT'L INT. (Jan. 13, 2021), <https://nationalinterest.org/blog/reboot/covid-19-shows-power-social-norms-police-behavior-176297> [<https://perma.cc/G85F-C5WU>] (using COVID-19 as example of social norms' ability to police behavior alongside law).

¹⁹² See Steve Lohr, *The Age of Big Data*, N.Y. TIMES (Feb. 11, 2012), <https://www.nytimes.com/2012/02/12/sunday-review/big-datas-impact-in-the-world.html> (chronicling rise of big data in commerce); *NewVantage Partners Releases 2022 Data and AI Executive Survey*, BLOOMBERG: BUS. (Jan. 3, 2022, 9:00 AM), <https://www.bloomberg.com/press-releases/2022-01-03/newvantage-partners-releases-2022->

the process open and between the parties with economic stakes, the process will become more open and can create a more team-oriented way of fighting counterfeiting.¹⁹³

C. *Potential Downsides of Implementation*

While this deposit-based system has a tremendous upside, it is not completely without faults. An initial concern is the upfront costs of implementation. It will cost money to establish the infrastructure to collect, protect, and then disburse the funds to the proper party.¹⁹⁴ However, after paying the upfront costs, the only costs will be the costs of upkeep and adjudication costs. The upkeep costs are unlikely to be extensive because keeping track of one additional source of money should not be burdensome for Online Marketplaces that are running a business with many different money flows. The adjudication costs have the potential to be expensive; however, those costs are present in the copyright space and are unavoidable by any DMCA inspired proposal.¹⁹⁵

There may also be a concern that trademark holders may try to strategically time claims to maximize harm to competitors and/or minimize the deposit they would be required to pay. While such concerns are valid, this Note's proposed deposit-calculation method smooths some of the rough edges out. By taking average weekly sales, the deposit should be a fair amount and not subject to minute fluctuations in the market. More detailed calculations are possible, but the more case specific the calculations get, the more expensive and difficult they are to compute. There is also the risk of losing some of the transparency regarding how Online Marketplaces calculate deposits the more each deposit becomes tailored to individual parties. If unforeseen abuse strategies arise, the deposit system is flexible enough to allow for more context specific remedies.

Finally, this deposit system will be harder to implement on platforms that focus on auctions or resale of goods. This extra decentralization and difficulty

data-and-ai-executive-survey ("97.0% of participating organizations are investing in Data initiatives and . . . 91.0% are investing in AI activities."). Increasing use of big data indicates companies would be able to use data for a deposit system.

¹⁹³ Corporations are increasingly serving as third-party adjudicators between buyers and sellers. See Rory Van Loo, *The Corporation as Courthouse*, 33 YALE J. ON REGUL. 547, 566-68 (2016). Van Loo gives credit card companies' adjudication of consumer complaints as an example of corporations adjudicating issues between third parties, a function that has not yet been a focus of legal scholarship. *Id.* at 551 (explaining companies are following procedural justice components that lawyers have "long identified as important for legitimacy"). This Note's proposal would develop corporations' adjudicative role in the modern economy.

¹⁹⁴ Amazon's large preexisting data analysis infrastructure will help reduce costs for setting up internal infrastructure for handling claims. Other Online Marketplaces could also leverage the power of Amazon's data infrastructure, as seen by wide availability of Amazon Web Services. See Robinson Meyer, *The Unbelievable Power of Amazon's Cloud*, ATLANTIC: TECH. (Apr. 23, 2015), <https://www.theatlantic.com/technology/archive/2015/04/the-unbelievable-power-of-amazon-web-services/391281/>.

¹⁹⁵ See Rives' Statement, *supra* note 170, at 16 (providing example of DMCA litigation costing \$22,000).

in finding accurate average sales makes the application more difficult. However, the resultant damage of this system not being a good fit is minimized by the fact that selling used goods is typically allowed without the trademark holder's consent or awareness.¹⁹⁶ Additionally, the difficulty of implementation on these platforms is not fatal because trademark holders still have other ways, outside of the deposit scheme, to police their marks.

Importantly, this system is not designed to be so rigid as to preclude improvements in the future. E-retail has flourished and changed rapidly and dramatically, so any system must be prepared to adjust to the times as needed.¹⁹⁷ This deposit system is ultimately designed to be flexible enough to adapt with the market. The core of this system is the interest alignment of Online Marketplaces and sellers to reduce counterfeit goods on Online Marketplaces. By creating a less antagonistic process, sellers are incentivized to continue policing their marks alongside the Online Marketplaces. Given the potential for abuses on either side, the deposit also puts constraints on overzealous competitors without being overly burdensome. This framework will help fight counterfeit goods while also granting it the necessary flexibility to handle the problems of tomorrow, not just the problems of today.

CONCLUSION

Trademark law is a vital tool of modern society that helps consumers make efficient choices and allows proper competition to promote societal needs. E-retail has also grown and flourished of late, revolutionizing the way consumers shop. Its ability to increase consumer options and facilitate easier access to the market is unparalleled. Unfortunately, the positives of e-retail coexist with important and costly negatives. Chief among those is counterfeit goods. E-retail has made sales of counterfeit goods much easier, just as it has made sales of legitimate goods easier. The massive initial benefit of e-retail, along with its potential to create future compounding benefits, means that the governing legal framework must strike a balance that both fights counterfeits and also does not overexhaust the resources of e-retail platforms.

¹⁹⁶ See Yvette Joy Liebesman & Benjamin Wilson, *The Mark of a Resold Good*, 20 GEO. MASON L. REV. 157, 188 (2012) (“The first sale doctrine is based on the principle that trademark owners should not be able to control downstream sales of their goods.”).

¹⁹⁷ See *E-commerce Retail Sales as a Percent of Total Sales*, FED. RESRV. ECON. DATA, <https://fred.stlouisfed.org/series/ECOMPCTSA> [<https://perma.cc/8VW5-EU7J>] (last updated Feb. 17, 2023) (charting rise of e-commerce retail sales as percent of total sales from 0.8% in first quarter of 2000 to 14.3% in first quarter of 2022). As technology continues to develop further, e-commerce sales are likely to become even more of an integral part of everyday life. The COVID-19 pandemic also shows the resilience of e-commerce to adapt to rapid changes in market conditions. For analysis on how e-commerce adapted to the COVID-19 pandemic, see OECD, *E-COMMERCE IN THE TIMES OF COVID-19*, at 2-4 (2020), https://read.oecd-ilibrary.org/view/?ref=137_137212-t0fjgnerdb&title=E-commerce-in-the-time-of-COVID-19 [<https://perma.cc/77Q4-H6L8>].

The counterfeit problem is huge, with billions of dollars lost annually.¹⁹⁸ Such losses also extend beyond the purely economic and extend into consumers safety when counterfeit goods are dangerously defective. Current policing methods, while admirable and helpful, are simply incapable of fully stopping the onslaught of counterfeit goods on Online Marketplaces.

This Note's deposit proposal will help stem the tide of online counterfeiting. By borrowing a high-level structure from the DMCA, this proposal has the benefit of learning from both the successes and failures of the DMCA safe harbor. Building upon those issues, this proposal aims to align the incentives of sellers and Online Marketplaces to help them work together to reduce counterfeit goods on e-commerce platforms. No one person or entity alone can stop the massive tide of counterfeit goods; therefore, fostering cooperation among the parties is vital. The counterfeit problem is large and is only getting larger, requiring swift action before it balloons further and causes even more harm. This solution strikes a balance between reducing the prevalence of online counterfeits and not overburdening Online Marketplaces.

¹⁹⁸ See Press Release, Buy Safe Am. Coal., *supra* note 8 (noting devastating impact to American businesses and consumers from sales of fraudulent goods).