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## Going Once, Going Twice, Sold - Are Sales of Copyrighted Items Exposing Internet Auction Sites to Liability

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# GOING ONCE, GOING TWICE, SOLD! ARE SALES OF COPYRIGHTED ITEMS EXPOSING INTERNET AUCTION SITES TO LIABILITY?

## I. INTRODUCTION

Internet auction sites have become havens for people looking for either a fast dollar or that elusive item they can no longer find in stores. On-line service providers (“OSPs”)<sup>1</sup> such as Yahoo.com,<sup>2</sup> Amazon.com,<sup>3</sup> and eBay,<sup>4</sup> which provide auction forums, have enjoyed increasing popularity within the last few years.<sup>5</sup> In fact, eBay, the leading venue, has hosted at least fifty-seven million auctions on its site since 1995.<sup>6</sup> eBay users post new auctions on the site at a rate of 340 per minute, which translates to a rate of 500,000 per day.<sup>7</sup>

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1. OSPs are also referred to as Internet Service Providers (“ISPs”) or Internet Access Providers. Michelle A. Ravn, *Navigating Terra Incognita: Why the Digital Millennium Copyright Act Was Needed to Chart the Course of Online Service Provider Liability for Copyright Infringement*, 60 OHIO ST. L.J. 755, 758 n.12 (1999). ISPs and Internet Access Providers usually refer to companies offering tools to access the Internet. *Id.*; see also Karen S. Frank, *Potential Liability on the Internet*, 3 CABLE TELEVISION LAW 1996: COMPETITION IN VIDEO AND TELEPHONY, at 425 (PLI Pats., Copyrights, Trademarks & Literary Prop. Course, Handbook Series No. G4-3962, 1996).

Netscape is an example of an ISP. The term OSP generally refers to either a company that provides content, such as a Bulletin Board Service (“BBS”), or to a web page provider. Ravn, *supra* note 1, at 758 n.12. America Online and Prodigy are examples of companies offering a hybrid of both ISP qualities and OSP content. *Id.* at 758-59 n.12. Throughout this comment, “OSP” is used to include both categories.

2. *Yahoo Auctions*, at <http://www.auctions.yahoo.com> (last visited Aug. 24, 2000).

3. *Amazon.com Auctions*, at [http://s1.amazon.com/exec/varzea/subst/home/home.html/ref=gw\\_m\\_ln\\_br\\_au\\_2/107-3102025-9438949](http://s1.amazon.com/exec/varzea/subst/home/home.html/ref=gw_m_ln_br_au_2/107-3102025-9438949) (last visited Dec. 30, 2000).

4. <http://www.ebay.com> (last visited Aug. 24, 2000).

5. See Peter Lewis, *How Cyber Con Artist in Seattle Burned Bidders*, SEATTLE TIMES, Oct. 4, 1999, at A1.

6. *Id.*

7. Matt Richtel, *EBay Says Law Discourages Auction Monitoring*, N.Y. TIMES, Dec. 10, 1999, available at <http://www.nytimes.com/1999/12/10/technology/10ebay.html> (last visited Oct. 27, 2000).

Over the years, however, eBay has also become a hotbed for unauthorized sales of copyrighted works.<sup>8</sup> In particular, eBay users infringe on the exclusive rights of copyright holders by selling copyrighted movies not released on video, as well as copyrighted movie trailers.<sup>9</sup> However, many Internet users are not concerned with copyright infringement.<sup>10</sup> As people become more capable of accessing and exploring the Internet, copyright holders' ability to protect their intellectual property is increasingly frustrated. Arguably, the Internet, through its ubiquitous reach and anonymity of its users, has done more to diminish the exclusive rights of copyright holders than any other medium.<sup>11</sup> To compensate for their violated rights, copyright holders frequently look to those who provide the forum for copyright infringement, on-line companies, as "deep pocket" defendants.<sup>12</sup>

On October 28, 1998, Congress enacted the Digital Millennium Copyright Act ("DMCA")<sup>13</sup> in an attempt to ameliorate the problems of copyright infringement on the Internet.<sup>14</sup> Congress also intended to

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8. See generally *Ebay Category Overview*, at <http://www.listings.ebay.com> (last visited Oct. 28, 2000). eBay users sell thousands of various items that are protected by copyrights. *Id.* These include promotional movie posters not released by the studios, press kits, movies not released on video, trailers, and a variety of other copyrighted works that are not the subject of this comment. *Id.*; see also Christopher Morris, *Article: I. Intellectual Property: A. Copyright: 3. Defenses: a) First Sale: Quality King Distributors, Inc. v. L'anza International*, 14 BERKELEY TECH. L.J. 65, 65 (1999). The first sale doctrine is a limitation on copyright owners' rights. *Id.* Once the initial sale of a copyrighted work takes place, the copyright owner loses the ability to control its subsequent transfer. *Id.* In this comment, however, the sellers of copyrighted works and on-line auction sites are not entitled to this defense because the copyright holder has not made an initial sale of the item, and therefore still retains control over its distribution. Movie trailers are generally not sold to the public. Additionally, movies not released on video are yet to be distributed and are therefore illegal to sell.

9. *Ebay*, at <http://search.ebay.com/search/search> (last visited Oct. 26, 2000). Movies currently sold on eBay not released on video include, among others, SCARY MOVIE (Buena Vista 2000), REMEMBER THE TITANS (Disney 2000) and MEET THE PARENTS (Universal Studios 2000). Additionally, over 100 movie trailers are currently for sale on eBay, including COYOTE UGLY (Touchstone Pictures 2000), MATRIX (Warner Brothers 1999) and SCARY MOVIE (Buena Vista 2000). *Id.*

10. See Jennifer E. Markiewicz, *Seeking Shelter from the MP3 Storm: How Far Does the Digital Millennium Copyright Act Online Service Provider Liability Limitation Reach?*, 7 COMMLAW CONSPPECTUS 423, 423 (1999). Along with current movies, people trade items such as music and software, often without thinking of the proprietary rights associated with the items. *Id.*

11. *Id.*

12. *Id.*

13. S. REP. NO. 105-190, at 1, 19 (1998). See also 17 U.S.C. § 512 (1994 & Supp. 1999).

14. See 144 S. CONG. REC. S11887, S11887 (1998) (statement of Sen. Kohl) ("In my view we need this measure to stop an epidemic of illegal copying of protected works—such as movies, books, musical recordings, and software.").

severely curtail OSPs monetary liability.<sup>15</sup> Ultimately, however, the DMCA failed to clarify the extent of the potential liability of Internet auction sites.<sup>16</sup> Additionally, eBay has argued that under current law, “aggressive monitoring of the transactions on its site could leave it open to lawsuits. So it makes no effort to sift through a vast majority of the tens of thousands of new auctions each day to weed out inappropriate items.”<sup>17</sup>

Despite its ambiguities, the DMCA created safe harbors for certain OSP activities.<sup>18</sup> Therefore, OSP status is highly coveted because to defend a copyright infringement suit is costly, and the threat of a high damage award is daunting.<sup>19</sup> If the OSP fails to comply with the safe harbor, “the question of liability will be determined by traditional copyright analysis.”<sup>20</sup> Thus, Internet auction sites like eBay seek service provider status by asserting the following: 1) they merely provide a venue for on-line sales; 2) they only provide on-line support services; 3) they comply with the requirements of the safe harbor provision and 4) the users control the content.<sup>21</sup>

According to § 512 of the Copyright Act, an OSP is exempt from liability if it is “transmitting, routing, or providing connections for, material through a system or network controlled or operated by or for the service

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15. See 144 S. CONG. REC. S11887, S11888 (1998) (statement of Sen. Thurmond) (“It also clarifies the liability of on-line and Internet service providers regarding their liability for copyright infringement.”). “Title II of the DMCA will limit the infringement liability of online service providers. This title is intended to preserve incentives for online service providers and copyright owners to cooperate to detect and address copyright infringements that occur in the digital networked environment.” *Id.* at S11890 (statement of Sen. Leahy).

16. See Bruce McWilliam, *Copyright Evolution: A Nature Selection of Topics: New Copyright Law Protects Online Service Providers*, COMPUTING CAN., Mar. 12, 1999, at 11 available at 1999 WL 1D265309. Due to the vague and often broad language of the DMCA, it is unclear which service providers are eligible for the safe harbor exemption. *Id.*

17.

Richtel, *supra* note 7.

18. See § 512; MARSHALL LEAFFER, UNDERSTANDING COPYRIGHT LAW 423 (3d ed. 1994).

19. Markiewicz, *supra* note 10, at 424. This exemption is in addition to other defenses available to an OSP under either copyright law or any other law. LEAFFER, *supra* note 18; see also Timothy J. Mullaney & Spencer E. Ante, *Info Wars*, BUS. WK., June 5, 2000, at EB 108.

20. LEAFFER, *supra* note 18.

21. *eBay: User Agreement* § 3.1, at <http://www.pages.ebay.com/help/community/png-user.html> (last visited Aug. 24, 2000).

Our site acts as the venue for sellers to list items . . . and buyers to bid on items.

We are not involved in the actual transaction between buyers and sellers. As a result, we have no control over the quality, safety or legality of the items advertised, the truth or accuracy of the listings, the ability of sellers to sell items or the ability of buyers to buy items.

*Id.* at *User Agreement* § 3.1; see also Mylene Mangalindan, *Alleged Drug Sale on eBay Raises Liability Issue*, WALL ST. J., May 30, 2000, at B18 (explaining eBay denies liability because it is merely a conduit, acting like a newspaper that publishes classified advertisements).

provider,”<sup>22</sup> or if the service provider offers “online services or network access, or the operator of facilities therefor . . . .”<sup>23</sup> Under the safe harbors, four categories of OSP activity are exempt.<sup>24</sup> For example, the Act exempts OSPs if they “stor[e] material, such as a Web Page or chat room.”<sup>25</sup> However, the DMCA will not protect a service provider if it is aware that copyrighted works are being sold illegally through its service or if it receives a direct profit from those illegal sales.<sup>26</sup>

EBay is not explicitly shielded from liability under the DMCA and is distinguishable from OSPs that charge a flat rate service fee.<sup>27</sup> At least one court has held that OSPs, such as America Online, do not directly profit from copyright infringement.<sup>28</sup> EBay, on the other hand, charges users a percentage of each on-line sale<sup>29</sup> and therefore directly profits from the copyright infringement.<sup>30</sup> Other auction sites, such as the one offered by

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22. 17 U.S.C. § 512(a) (1994 & Supp. 1999); *see also* Markiewicz, *supra* note 10, at 435. This first definition of a standard service provider refers to providing access to the Internet without content. *Id.*

23. 17 U.S.C. § 512(k)(1)(B) (1994 & Supp. 1999). This second definition of service provider is broader in scope and appears to be a catch-all. This section does not provide a definition of “online services” or “network access.” *Id.* In order to qualify for the exemptions the Act provides for service providers, the OSP must adopt a policy of terminating service to repeat infringers and the OSP must inform its subscribers of its policy, but it need not monitor sites to comply with the exemption. *See* § 512(j)(1) (1994 & Supp. 1999).

24. 17 U.S.C. § 512(a)-(d) (1994 & Supp. 1999). These include “Transitory Digital Network Communications,” “System Caching,” “Information Residing on Systems or Networks At Direction of Users,” and “Information Location Tools.” *Id.* The relevant safe harbor for this Comment is “Information Residing on Systems or Networks At Direction of Users.” *Id.* § 512(c).

25. LEAFFER, *supra* note 18, at 24.

26. § 512(c) (stating “[a] service provider shall not be liable for monetary relief . . . if the service provider . . . does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity . . . .”); *see also* H.R. REP. NO. 105-551, at pt.1. The analysis done by the House of Representatives suggests a financial benefit should not be a one time set-up fee, but should rather be a “financial benefit directly attributable to the infringing activity.” *Id.*; *see also* Marobie-FL, Inc. v. Nat’l Assoc. of Fire Equip., 983 F. Supp. 1167 (N.D. Ill. 1997).

27. *AOL Pricing Plans*, at <http://www.aol.com/info/pricing.html> (last visited Oct. 21, 2000).

28. *See* Religious Tech. Ctr. v. Netcom On-Line Communication Servs., 907 F. Supp. 1361, 1377 (N.D. Cal. 1995) (holding because the defendant received a fixed rate for its service, the infringement did not enhance the value of the service). *But see* Playboy Enters., Inc. v. Webworld, Inc., 991 F. Supp. 543, 554 (N.D. Tex. 1997) (rejecting the defendant’s argument that because users pay a fixed rate instead of a per-download rate, defendant does not financially benefit from the infringing activity, and holding the infringement attracted users to the site from which the defendant derived a financial benefit).

29. *EBay: Are There Fees?*, at <http://www.pages.ebay.com/help/basics/n-fees.html> (last visited Oct. 9, 2000). EBay charges an insertion fee (usually \$0.25–\$2.00) and a fee based on a percentage of the final sale price (usually 1.25%–5%). *Id.*

30. *See* Greg Chang, *Legal Hammer May Come Down on eBay: Cyberfraud Probes: Is Firm Liable for Sale of Contraband Goods It Never Handles?*, NAT’L POST, Mar. 3, 1999, at C10,

Yahoo, do not receive a percentage of auction sales,<sup>31</sup> and are arguably more likely to fit within the DMCA exemption.<sup>32</sup>

This comment contends that although the DMCA protects traditional OSPs, it does not afford the same protection to eBay. Part II sets forth a background of copyright law. Part III discusses the problems with protecting copyrights on the Internet and explains the impetus for passing the DMCA. Part III also discusses both how and why Congress has released certain service providers from monetary liability for copyright infringement by their users. Part III concludes by critiquing the scope of the DMCA. Part IV discusses the treatment of swap meets in copyright infringement suits as it relates to on-line auction sites. Part IV also analyzes the reasons why eBay is indirectly liable to copyright holders. Part IV explains that eBay is not a service provider under the DMCA, and even if it was, eBay's activities do not qualify under the safe harbor provisions. Part V concludes with the contention that, despite the DMCA's limited additional protection afforded to copyright holders, eBay cannot seek refuge in the Act's safe harbor provision, and therefore can be held monetarily liable for its users' copyright infringement. Finally, until the DMCA is amended to provide incentives for service providers to monitor their sites, eBay runs the risk of vast liability for its users' copyright infringement by not complying with all of the safe harbor's requirements.

## II. BACKGROUND ON COPYRIGHT LAW

### *A. Overview of Copyright Protection*

Copyright law is intended to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."<sup>33</sup> Copyrightable subject matter covers "original works of authorship fixed in

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available at LEXIS, News, By Individual Publication, National Post File. "EBay profits from the sale of every item, whether legal or illegal." *Id.*

31. See *Yahoo!: Terms of Service*, at <http://docs.yahoo.com/info/terms> (last visited Oct. 21, 2000).

32. See § 512. But see Troy Wolverton, *Yahoo Accused of Illegal Video Game Sales* (Mar. 29, 2000), at <http://news.cnet.com/news/0-1007-200-1596474.html> (last visited Sept. 13, 2000) (discussing the lawsuit filed by Nintendo of America, Electronic Arts and Sega of America against Yahoo for permitting its users to sell illegal copies of copyrighted video games and illegal devices used to copy video games on Yahoo's auction site).

33. U.S. CONST. art. I, § 8, cl. 8 (granting Congress the power to create copyright protection).

any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device."<sup>34</sup> Therefore, the two main requirements for copyright protection are originality and fixation.<sup>35</sup> Copyright law lists eight broad categories of copyrightable subject matter called "works of authorship."<sup>36</sup>

Although the Constitution<sup>37</sup> and congressional law<sup>38</sup> reflect concern for copyright protection, certain uses of copyrighted works are permitted.<sup>39</sup> Historically, copyright law has attempted to maintain the delicate balance between the protection of authors' economic incentive to create, and the public's right to have reasonable access to that creation.<sup>40</sup> When confronted with technological advances, the law has subsequently evolved to protect creativity.<sup>41</sup> These advances, from the printing press to the Internet, have wreaked havoc on the balance between the incentive to create and public access to the work.<sup>42</sup>

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34. 17 U.S.C. § 102(a) (1994).

35. LEAFFER, *supra* note 18, at 45.

36. § 102(a).

37. U.S. CONST. art. I, § 8.

38. § 102(a).

39. 17 U.S.C. § 107 (1994 & Supp. 1999) (codifying the fair use doctrine that permits use or reproduction of copyrighted works for purposes of comment, criticism, news reporting, teaching, research, and scholarship) *Id*; see also Marc S. Friedman & Lindsey H. Taylor, *The Digital Millennium Copyright Act: New Protections for the Computer Age*, N.J. L.J., July 26, 1999, at S14; see also Robert J. Samuelson, *Copyright Legislation and Our Lives*, SAN DIEGO UNION-TRIB., Sept. 19, 1998, at B8. Copyright protection is qualified by the "fair use" doctrine. Samuelson, *supra* note 39. Copying a few pages for a research paper would not require the permission of the author. *Id*. Distributing those pages to hundreds of people, however, is a violation of copyright law. *Id*; see also Morris, *supra* note 8, at 65 (explaining the doctrine of first sale, and why certain auctions are not permitted uses of copyrighted works).

40. Samuelson, *supra* note 39.

41. See McWilliam, *supra* note 16. For example, before the Copyright Act was amended to address the Internet, OSPs could be liable for copyright infringement if a third party posted infringing material on their site. *Id*.

42. See Bart A. Lazar, *New Statute Tackles Challenging Internet and Creativity Issues: Digital Millennium Copyright Act Arrives*, N.Y. L.J., Mar. 15, 1999, at S3.

[A]dvancements in our society have frequently made it difficult to apply copyright principles to technological developments. Courts have often had to apply copyright law to technologies not in existence when the laws were passed . . . . The availability of new media increases copyright owners' ability to distribute their works. However, it also affords counterfeiters new and improved methods of unlawfully copying copyrighted works.

*Id*.

## B. Copyright Infringement

### 1. Direct Liability

Violating one of a copyright owner's exclusive rights, as listed in § 106<sup>43</sup> of the Copyright Act, constitutes infringement.<sup>44</sup> Such unauthorized use of a copyrighted work can result in civil and criminal liability for the infringer.<sup>45</sup> Copyright infringement claims are generally premised on violations of the United States Copyright Act ("USCA").<sup>46</sup> The USCA permits a copyright owner "to institute an action for any infringement of that particular right committed while he or she is the owner . . . ."<sup>47</sup>

Copyright law imposes absolute liability for violating any of the five traditional rights of a copyright owner: reproduction, distribution, modification, public performance and public display.<sup>48</sup> Thus, a copyright owner may seek injunctive and monetary relief regardless of the infringer's intent.<sup>49</sup>

### 2. Indirect Liability

Additionally, courts have fashioned another form of relief for copyright owners, imposing vicarious and contributory liability for the actions of third parties in certain circumstances.<sup>50</sup> Although not expressly recognized in the 1976 Act, the general principle of indirect liability is derived from § 106, which grants the copyright owner the exclusive right to license others to use the copyrighted work.<sup>51</sup>

43. 17 U.S.C. § 106 (1994).

44. 17 U.S.C. § 501 (1994).

45. 17 U.S.C. §§ 501, 506 (1994).

46. Copyright Act of 1976, Pub. L. No. 95-94, 91 Stat. 682 (codified as amended in scattered sections of 17 U.S.C.).

47. 17 U.S.C. § 501(b) (1994).

48. §§ 106, 501. Each of these five rights allows the copyright owner to control the exploitation of their owner's intellectual property rights. *See id.* § 106.

49. Mark F. Radcliffe, *Congress Helps Resolve Net Copyright Issues*, NAT'L L.J., Feb. 8, 1999, at C16.

50. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1984) (explaining "vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another"). Vicarious and contributory liability are derived from tort law, as copyright infringement is a tort. *See LEAFFER, supra* note 18, at 399.

51. *Id.*



Vicarious liability arises when a party fails to exercise its right and ability to supervise a copyright infringer and has derived a financial benefit from the infringement.<sup>52</sup> Vicarious liability may be harsh, especially when the defendant had no actual awareness of the infringing activity.<sup>53</sup> However, this liability is justified by principles of equity; parties who financially benefit from illegal copyright infringement should pay the rightful owner.<sup>54</sup>

Contributory liability exists when the defendant knowingly “induces, causes, or materially contributes to the infringing conduct of another . . . .”<sup>55</sup> Liability for contributory infringement is most commonly found in cases where the related defendant has actual knowledge of and directly participates in the infringement.<sup>56</sup> As the level of knowledge and control diminishes, the case for contributory liability weakens.<sup>57</sup>

### III. COPYRIGHT INFRINGEMENT PROBLEMS ON THE INTERNET

Movie studios and other companies with valuable intellectual property rights currently face the daunting reality that the Internet provides a forum for widespread copyright dilution.<sup>58</sup> Throughout the 1990s, the movement to revise copyright law grew stronger in order to face the challenge of the Internet.<sup>59</sup> In particular, Internet auction sites create unique problems for movie studios. These sites provide video pirates a

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52. *Religious Tech. Ctr. v. Netcom On-Line Communication Servs.*, 907 F. Supp. 1361, 1375 (N.D. Cal. 1995); see also *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1161–62 (2d Cir. 1971). In *Gershwin Publishing*, the defendant sponsored a concert where unauthorized performances of copyrighted music took place. *Id.* at 1161. The court held the defendant vicariously liable for being in a position to police the activity but failing to do so. *Id.* at 1163. The defendant made a substantial amount of money from the performances and had knowledge the music would be performed. *Id.*

53. LEAFFER, *supra* note 18, at 401.

54. *Id.* at 402.

55. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996) (quoting *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)); see also *Elektra Records Co. v. Gem Elec. Distribs., Inc.*, 360 F. Supp. 821, 824 (E.D.N.Y. 1973). The defendant was held liable for selling blank tapes and for charging a fee for duplicating tapes that contained copyrighted music. *Elektra Records*, 360 F. Supp. at 824.

56. LEAFFER, *supra* note 18, at 399.

57. *Id.* at 400.

58. See Carolyn Said, *Fighting for Cyberspace Rights*, S.F. CHRON., Apr. 2, 1998, at D3.

59. Frank Petrosino, *The Vast Frontier . . . Copyright Law and the Internet*, 24 VT. B.J. & L. DIG. 41, 42 (1998).

larger forum to conduct unauthorized sales.<sup>60</sup> In addition, sites like eBay provide anonymity and a world market for bootleggers.<sup>61</sup>

Currently, traditional forms of piracy deprive studios of billions of dollars of profit a year.<sup>62</sup> The Internet provides yet another avenue to increase that damage.<sup>63</sup> Digital piracy is most commonly accomplished through anonymous sales of bootlegs, which are obtained either through taping movies in a theatre or from stolen prints.<sup>64</sup> Because eBay serves millions of users, video pirates can reach a much wider audience than they could by peddling infringing works on street corners.

#### *A. Development of Copyright Protection on the Internet*

Prior to the enactment of the DMCA, courts granted relief for parties based on case law. These early decisions reflect the difficulty in applying copyright law to new technologies. In *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*,<sup>65</sup> members of the Church of Scientology sued Netcom, an OSP, when a subscriber posted several works written by the church's founder, L. Ron Hubbard, on Netcom's bulletin board.<sup>66</sup> The court held that Netcom was not liable for direct infringement because it did not actually cause the copying of the infringed work.<sup>67</sup> The court also found Netcom merely served as an operating system and did not alter the content of postings on its site.<sup>68</sup> Due to the strict evidentiary standards applied in Netcom, direct liability infringement claims against OSPs may be weakened or diminished.<sup>69</sup>

With respect to vicarious liability, the court held Netcom was not vicariously liable for copyright infringement because the "financial

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60. Marc Graser & Paul Sweeting, *Pirates' Booty: High-Tech Hackers Stay Ahead of MPAA*, DAILY VARIETY, Nov. 4, 1999, at 37. MPAA President Jack Valenti said, "Bear in mind that we don't have broadband access today, so we don't have many movies on the Internet today . . . [b]ut by the middle or the end of next year, we will have an avalanche." *Id.* As a result, a wave of high-tech piracy could "dwarf the dollar amounts we lose today . . . . Like everything with the 'Net, the problem is not confined to the U.S. Once a movie is posted on the Web, anyone in the world with a PC can access it. *Id.*

61. *Id.*

62. Said, *supra* note 58.

63. *See id.*

64. *See* Marc Graser & Paul Sweeting, *Get Ready for Piracy.com: Cyber-thieves Disrupting Pic Release Patterns*, VARIETY, Nov. 1-7, 1999, at 1.

65. 907 F. Supp. 1361 (N.D. Cal. 1995).

66. *Id.* at 1365-66.

67. *Id.* at 1368-69.

68. *Id.* at 1372.

69. Markiewicz, *supra* note 10, at 431.

benefit” prong of the test was not met.<sup>70</sup> As the court noted, a defendant is vicariously liable for the actions of a primary infringer if the defendant: “(1) has the right and ability to control the infringer’s acts and (2) receives a direct financial benefit from the infringement.”<sup>71</sup> The court concluded Netcom did not derive financial benefit from the infringement because it received a fixed fee for the use of its services, and did not charge an additional fee to access the infringing material.<sup>72</sup> The court found the infringing postings of one Netcom user did not enhance the value of Netcom’s service, and was therefore insufficient evidence of a financial benefit.<sup>73</sup>

As for contributory liability, other courts have held an OSP may face liability if it has knowledge of, and contributes to, the infringing activity.<sup>74</sup> In *Netcom*, the court held an OSP must substantially participate in the infringing activity to be liable for copyright infringement.<sup>75</sup> However, in a subsequent case, *Fonovisa, Inc. v. Cherry Auction, Inc.*,<sup>76</sup> the court lowered the level of participation necessary for contributory liability.<sup>77</sup> The *Fonovisa* court ruled contribution to infringement is not limited to situations where the defendant explicitly encouraged or enabled the sale of counterfeit products, but also extends to situations in which the defendant provided the forum for the known infringing activity.<sup>78</sup> Although this case did not involve an OSP, *Fonovisa* paved the way for more viable claims against OSPs like eBay.<sup>79</sup> This shift from direct liability of ISPs to indirect liability was the first step in modernizing copyright law through case law.<sup>80</sup>

In *Playboy Enterprises, Inc. v. Russ Hardenburgh, Inc.*,<sup>81</sup> an Ohio federal court ruled a bulletin board system (“BBS”), which encouraged its

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70. *Netcom*, 907 F. Supp. at 1377.

71. *Id.* at 1375.

72. *Id.* at 1377.

73. *Id.*

74. *See id.* at 1375 (citing *Gershwin Publ’g. Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)); *see also* Adam H. Fleischer & S. William Grimes, *What a Tangled Web: The New Legal Liabilities Created by the Internet*, MEALEY’S CYBER TECH LITIG. REP. (Mealey Publ’n), Aug. 1999, available at LEXIS, News, By Individual Publication, M, Mealey Publications, Newsletters.

75. *See Netcom*, 907 F. Supp. at 1375.

76. 76 F.3d 259 (9th Cir. 1996).

77. *See id.* at 264.

78. *See id.*

79. If eBay cannot satisfy the requirements of the safe harbor under the DMCA, like many traditional OSPs can, eBay will not be exempt from liability. Therefore, eBay is vulnerable to viable claims of indirect infringement liability.

80. *See Markiewicz, supra* note 10, at 432.

81. 982 F. Supp. 503 (N.D. Ohio 1997).

subscribers to upload files, could be liable for direct infringement where the BBS screened the uploaded files and made them available to subscribers.<sup>82</sup> Thus, the court found violations of the distribution and display rights.<sup>83</sup> The plaintiff in *Hardenburgh* claimed the defendants, as operators of the BBS, unlawfully made available more than 400 graphic image files containing illegal copies of adult photographs from *Playboy* magazine.<sup>84</sup> The court granted summary judgment for the plaintiff, holding the defendants directly infringed upon *Playboy's* copyrights.<sup>85</sup>

The *Hardenburgh* court held encouraging subscribers to upload files onto the BBS, and exerting control over the selection of the photographs through screening, changed the defendants "from passive providers of a space in which infringing activities happened to occur, to active participants in the process of copyright infringement."<sup>86</sup> The court also stated the defendants had constructive knowledge of the uploading of the plaintiff's pictures, and did not take any preventive measures to discourage the infringement.<sup>87</sup> The court rejected the defendant's argument as inconsistent, reasoning that a BBS could not actively encourage and control the uploading of pictures, while simultaneously releasing them from liability.<sup>88</sup> Therefore, despite the trend toward indirect liability, the *Hardenburgh* ruling shows an OSP may nonetheless be directly liable if it actively screens files and encourages uploading.<sup>89</sup>

After the *Fonovisa* and *Hardenburgh* decisions, copyright holders can successfully assert both direct and indirect liability claims against OSPs, assuming the OSPs have not complied with the DMCA's safe harbor provision.<sup>90</sup>

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82. *Id.* at 513.

83. *Id.*

84. *Id.* at 505.

85. *Id.*

86. *Id.* at 513.

87. *Hardenburgh*, 982 F. Supp. at 513.

88. *Id.*

89. Richard Raysman & Peter Brown, *Internet Copyright Developments*, N.Y. L.J., Feb. 10, 1998, at 3.

90. *See Hardenburgh*, 982 F. Supp. at 512-13; *see Fonovisa*, 76 F.3d 259.

*B. Congress Passed the Digital Millennium Copyright Act to Clarify Liability and Exemptions for On-line Service Providers*

Congress enacted the DMCA to protect industries, such as the movie business, from the infringement problems aggravated by the Internet.<sup>91</sup> However, Congress was also concerned about developing case law that could impose broad liability on OSPs, and therefore decided to fashion an exemption for compliant OSPs. Prior to the DMCA's enactment, its proponents, including entertainment studios, believed the DMCA would strengthen copyright ownership rights.<sup>92</sup> Specifically, studios hoped the legislation would help protect them from the piracy that "threatens . . . cyber-commerce."<sup>93</sup> While copyright holders insisted on greater protection on the Internet, OSPs demanded exemption for the infringing conduct of their users.<sup>94</sup>

OSP's hoped the DMCA would release them from monetary liability for their users' illegal activities.<sup>95</sup> However, Congress realized these interests must balance with the needs of copyright owners.<sup>96</sup> OSPs argued that without the assurance that providers would be exempt from copyright liability, it would prove difficult to find investors, and therefore stifle the growth of the Internet.<sup>97</sup>

In passing the DMCA, Congress recognized the need to address the competing concerns of unlimited access to material and the protection of copyright interests on the Internet.<sup>98</sup> Ultimately, the Act is the result of the

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91. See Jon A. Baumgarten et al., *New Law Details Ownership Rights on the Internet*, NAT'L L.J., Oct. 25, 1999, at C6.

92. See Samuelson, *supra* note 39.

93. *Id.* (explaining "[i]f people make copies of movies—and trade or sell them over the Internet—then studios face big losses").

94. See Frank Petrosino, *supra* note 59, at 41–42.

95. See John Gibeaut, *Zapping Cyber Piracy*, A.B.A. J., Feb. 1997, at 60, 62 (discussing how OSPs believe it is unfair to hold them liable for infringements by people who use their services). In their defense, OSPs argue that monitoring would be extremely difficult due to the amount of information transmitted by the provider. See *id.*

96. See Said, *supra* note 58 (expressing Professor Pamela Samuelson's view that without the new law, the benefits derived from the copyright system would be destroyed and that balancing the media's interests while allowing sharing of creative works on the Internet seemed to be the most attractive option).

97. See 144 S. CONG. REC. S11887–89 (1998). "In addition to securing copyright in the global, digital environment, the DMCA also clarifies the liability of on-line and Internet service providers . . . . The OSPs and ISPs needed more certainty in this area in order to attract the substantial investments necessary to continue the expansion and upgrading of the Internet." *Id.* (statement by Sen. Hatch).

98. See William Sloan Coats & Vickie L. Freeman, *Digital Copyright Act Seen as Win for Industry*, ENT. L. & FIN., Nov. 1998, at 1.

battle between intellectual property owners, such as Hollywood studios, and OSPs.<sup>99</sup> The DMCA provided the groundwork for balancing these competing interests and complex legal issues.<sup>100</sup>

The Act attempts to protect against digital piracy while simultaneously prompting increased distribution of copyrighted works over the Internet.<sup>101</sup> The Act implements terms of two World Intellectual Property Organization (“WIPO”) treaties.<sup>102</sup> The WIPO Copyright Treaty<sup>103</sup> and the WIPO Performances and Phonograms Treaty<sup>104</sup> were enacted in Geneva in December 1996.<sup>105</sup> These treaties demanded member nations protect digitally transmitted intellectual property from piracy.<sup>106</sup> Protection came in the form of legal remedies.<sup>107</sup> The DMCA exceeds the scope of the WIPO treaties by creating criminal penalties for violations.<sup>108</sup> Furthermore, the DMCA provides immediate relief from monetary liability for common Internet activities.<sup>109</sup> Finally, the DMCA treats qualified OSPs favorably by exempting them from direct liability claims, as well as indirect liability claims brought on the basis of contributory or vicarious liability theories.<sup>110</sup> Copyright holders could also benefit from these provisions because the DMCA requires OSPs to immediately remove infringing works from the Internet.<sup>111</sup> However, because OSPs are not required to monitor their sites, the burden of finding these infringers is placed on the copyright holders.

Before the DMCA, initial case law favored broad OSP liability for third party infringing acts<sup>112</sup> in connection with the Internet.<sup>113</sup> Therefore,

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99. *Id.*

100. Radcliffe, *supra* note 49.

101. *See* Coats & Freeman, *supra* note 98.

102. *Id.*

103. World Intellectual Property Organization Copyright Treaty, Dec. 20, 1996, S. Treaty Doc. No. 105-17.

104. World Intellectual Property Organization Performance and Phonograms Treaty, Dec. 20, 1996, S. Treaty Doc. No. 105-17.

105. Radcliffe, *supra* note 49.

106. Sloan Coats, *supra* note 98, at 1.

107. *Id.*

108. *Id.* at 5.

109. Radcliffe, *supra* note 49; *see also* Ralph Oman, *U.S. Enacts New Law on Internet Copyright*, IP WORLDWIDE, Jan.–Feb. 1999, available at LEXIS, News, By Industry & Topic, Intellectual Property, IP WORLDWIDE. “The DMCA does make an important advance. It amends U.S. law to extend the reach of copyright into cyberspace.” *Id.*

110. *See* Coats & Freeman, *supra* note 98.

111. *Id.*

112. *See* discussion *infra* Part II.B.

113. *See* discussion *infra* Part II.B.

Congress considered the implications of such broad liability when it repudiated this concept by passing the DMCA.<sup>114</sup>

#### IV. ANALYZING THE DMCA SAFE HARBOR PROVISION

The DMCA defines a service provider as “a provider of online services or network access, or the operator of facilities therefor.”<sup>115</sup> Even if a company’s activities fall under this definition, the company is only exempted from copyright infringement liability of its users if it satisfies one of the safe harbor provisions. The DMCA has four safe harbors for copyright infringement.<sup>116</sup> Section 512(a) limits the liability of a service provider if it serves as a conduit for network communications.<sup>117</sup> Section 512(b) protects “caching.”<sup>118</sup> Section 512(c) protects service providers from liability for hosting infringing material on their servers.<sup>119</sup> Finally, § 512(d) protects service providers acting as information location tools.<sup>120</sup> Consequently, a company such as eBay must attain service provider status and also comply with the requirements of a safe harbor provision to be exempt from liability.<sup>121</sup>

The thrust of the safe harbor for service providers derives from Title II of the DMCA, “Online Copyright Infringement Liability Limitation Act.”<sup>122</sup> This liability limitation was subsequently codified in the Copyright Act.<sup>123</sup> A service provider shall not be monetarily liable for information residing on systems or networks at the direction of users if it:

(A)(i) does not have actual knowledge that the material or an

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114. See 144 S. CONG. REC. S11887 (1998) (discussing the competing interests of copyright holders and Internet service providers, and recognizing the need to change copyright laws to evolve with new technology).

115. 17 U.S.C. § 512(k)(1)(B) (1994 & Supp. 1999). The other definition of service provider for purposes of this section includes, “an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user’s choosing, without modification to the content of the material as sent or received.” 17 U.S.C. § 512(k)(1)(A) (Supp. 1999). This definition of service provider does not apply to eBay because eBay does not provide Internet access.

116. See 17 U.S.C. § 512 (1994 & Supp. 1999).

117. 17 U.S.C. § 512(a) (1994 & Supp. 1999).

118. 17 U.S.C. § 512(b) (1994 & Supp. 1999).

119. 17 U.S.C. § 512(c) (1994 & Supp. 1999).

120. 17 U.S.C. § 512(d) (1994 & Supp. 1999). If sued, eBay would most likely argue that it complied with § 512(c). This section shields OSPs, which store content posted by users, from liability. *Id.*

121. Otherwise, indirect liability claims for monetary damages could be asserted against eBay. See discussion *infra* Part II.B.2.

122. Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (1998).

123. See § 512.

activity using the material on the system or network is infringing; (ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or (iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material; (B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and (C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing.<sup>124</sup>

Hence, under the DMCA, an OSP is exempt from liability for the infringing uses of its subscribers if: 1) the provider has no actual knowledge of the infringing activity; 2) the provider is not aware of the facts and circumstances from which the infringing activity would be apparent and 3) the provider acts expeditiously to remove or disable access to the offending material when it becomes aware of the infringing activity.<sup>125</sup>

Furthermore, service providers are subject to injunctions requiring them to terminate subscribers who are repeat infringers.<sup>126</sup> They must also designate an agent to receive notification of claimed infringements and publicly provide the agent's contact information.<sup>127</sup> If the OSP complies with all of these conditions, a court may only issue certain orders in a suit brought against an OSP.<sup>128</sup> These orders include: enjoining the provider from allowing access to the infringing material, restraining the subscriber from posting infringing material by terminating the subscriber's account, or by prescribing injunctive relief to prevent further infringement of the work in question.<sup>129</sup>

However, the DMCA's definition of service providers who may qualify for these safe harbor provisions is both "complex and ambiguous."<sup>130</sup> OSPs that do not qualify for the exemption "are not automatically liable for copyright infringement but, rather, cannot use these protections as a defense to certain remedies."<sup>131</sup> It is unclear, however,

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124. § 512(c).

125. *Id.*

126. 17 U.S.C. § 512(j)(1)(ii) (1994 & Supp. 1999).

127. 17 U.S.C. § 512(c)(2) (1994 & Supp. 1999).

128. *See* 17 U.S.C. § 512(j) (1994 & Supp. 1999).

129. *Id.*

130. Radcliffe, *supra* note 49.

131. 17 U.S.C. § 512(l) (1994 & Supp. 1999).



whether web sites like eBay are service providers under the Act, and if so, whether they comply with all of the conditions for exemption.<sup>132</sup> Until this is determined, web sites like eBay continue to adopt the standards required by § 512 in order to minimize their potential liability.<sup>133</sup>

#### A. Case Law Interpretation of the DMCA Safe Harbor Provision

In *A&M Records, Inc. v. Napster, Inc.*,<sup>134</sup> the court interpreted the scope of § 512's liability exemptions. In that case, Napster, an Internet start-up company that makes its MusicShare software available to all Internet users, argued that it should qualify under the liability exemption provided by § 512.<sup>135</sup> Napster's MusicShare software allows users to share MP3 music files with other users.<sup>136</sup> Napster claimed that it transmitted, routed or provided connections for digital online communications as required under the DMCA exemption "by enabling the connection of users' hard-drives and the transmission of MP3 files 'directly from the Host hard drive and Napster browser through the Internet to the user's Napster browser and hard drive.'"<sup>137</sup>

Section 512(k)(1)(B) of the Copyright Act defines a service provider as, "a provider of online services or network access, or the operator of facilities therefor . . . includ[ing] an entity described in subparagraph (A)."<sup>138</sup> This is a broader definition of service provider than that used in § 512(k)(1)(A).<sup>139</sup> The court reasoned it was unclear whether Napster qualified as a service provider under the narrower definition provided in subparagraph A.<sup>140</sup> The plaintiff, however, conceded that Napster was a service provider under § 512(k)(1)(A) and argued instead that Napster had not met the liability exemption requirements of § 512(a).<sup>141</sup> The plaintiff argued that Napster was not a service provider under § 512(a) because the infringing MP3 files were not routed through the Napster server.<sup>142</sup> Under

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132. See Radcliffe, *supra* note 49.

133. See *id.* Some of these standards include the naming of an agent to receive notification of claimed infringements, and removing items when copyright holders notify eBay of infringing sales. § 512 (c)(2).

134. 54 U.S.P.Q.2d (BNA) 1746, available at No. C 99-05183, 2000 U.S. Dist. LEXIS 6243 (N.D. Cal. May 5, 2000).

135. *Id.* at \*3.

136. *Id.* at \*2.

137. *Id.* at \*10 (quoting Defendant's Reply Brief at 3).

138. 17 U.S.C. § 512(k)(1)(B) (1994 & Supp. 1999).

139. 17 U.S.C. § 512(k)(1)(A) (1994 & Supp. 1999).

140. *Napster*, 2000 U.S. Dist. LEXIS 6243, at \*11.

141. *Id.* (referring to 17 U.S.C. § 512 (a)).

142. *Id.* at \*12-13.

the language of § 512(a), the transmission or routing must occur through the system or network.<sup>143</sup>

The plaintiff argued that Napster's system did not operate like a passive conduit under the definition of § 512(a), and thus should be analyzed under § 512(d). Section 512(d) is the stricter safe harbor, governing the service providers who offer information location tools.<sup>144</sup> This subsection has rigorous eligibility requirements because it covers assistance to users.<sup>145</sup> The court found Napster did not qualify under the activities described in § 512(a).<sup>146</sup>

The legislative history of section 512 demonstrates that Congress intended the 512(a) safe harbor to apply only to activities "in which a service provider plays the role of a 'conduit' for the communications of others." . . . [T]his court cannot say that Napster serves as a conduit for the connection itself, as opposed to the address information that makes the connection possible. Napster enables or facilitates the initiation of connections, but these connections do not pass through the system within the meaning of subsection 512(a).<sup>147</sup>

The court held that because Napster did not transmit, route or provide connections through its system, it subsequently did not qualify under the § 512(a) safe harbor.<sup>148</sup>

eBay may argue that exemption under § 512(c). Although Napster claimed exemption under § 512(a), this case is still important for future litigation as it is one of the first interpretations of § 512. Additionally, this case illustrates that courts will not broadly infer that an OSP is eligible for the safe harbor. Even if eBay can qualify as a service provider under the broader definition in § 512(k)(1)(B), eBay must still prove it lacked actual knowledge and did not financially benefit from the infringing activity pursuant to § 512(c).

### *B. The DMCA Provides Only Limited Protection of Intellectual Property Rights*

The DMCA relies on the intellectual property owners' right to police the Internet themselves to stop infringers. Conversely, Internet auction

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143. § 512(a).

144. *Napster*, 2000 U.S. Dist. LEXIS 6243, at \*14.

145. *Id.* at \*15.

146. *Id.* at \*25.

147. *Id.* at \*23–24 (quoting H.R. REP. NO. 105-551, at pt. 2 (1998) (citation omitted)).

148. *Id.* at \*25.

sites are not motivated to police their items because the structure of the DMCA exemption provides an incentive to overlook illegal transactions.<sup>149</sup> Jack Valenti, President of the Motion Picture Association of America, testified before Congress in October 1999, that in addition to being a boon to the entertainment industry in its fight against piracy, the DMCA fails to provide necessary safeguards for the movie studios against most Internet piracy and copyright infringement.<sup>150</sup> Moreover, he explained the seriousness of the problem of piracy:

With DVD hitting critical mass, e-commerce estimated to be netting \$85 billion by 2003, and with 10 million U.S. homes expected to have high-speed Internet access by the end of next year—meaning feature-length pics can be downloaded in 15 minutes—the MPAA is bracing for an “avalanche” of ‘Net piracy from digital delivery . . . . The hundredth copy of a digitized movie is as pure as the original, whereas in the analog world, each copy is degraded in quality. With a single keystroke, a pirate can do millions of dollars’ worth of damage to the market for a film, even if the pirate does not make a nickel himself.<sup>151</sup>

Lastly, Valenti discussed that although Congress passed the DMCA with the intent of protecting creative works on the Internet, when put into practice, the DMCA does not provide such protection.<sup>152</sup>

To hold OSPs liable, copyright owners must notify service providers regarding infringing material placed on their networks.<sup>153</sup> Although the DMCA requires that OSPs appoint agents to accept claims of copyright infringement,<sup>154</sup> it is still the copyright owner who must discover the infringing material on the network.<sup>155</sup> Because service providers attain

149. See Graser & Sweeting, *supra* note 64, at 107.

150. See Ian Stokell, *Newsbytes Telecom Week in Review 10/29/99*, Oct. 29, 1999 at LEXIS, News, By Individual Publication, A, ASAPII Database.

151. Graser & Sweeting, *supra* note 60, at 37.

152. See *id.*

153. 17 U.S.C. § 512(c)(1)(C) (1994 & Supp. 1999).

154. 17 U.S.C. § 512(c)(2) (1994 & Supp. 1999).

The limitations on liability established in this subsection apply to a service provider only if the service provider has designated an agent to receive notifications of claimed infringement . . . by making available through its service, including on its website in a location accessible to the public, and by providing to the Copyright Office, substantially the following information: (A) the name, address, phone number, and electronic mail address of the agent. (B) other contact information which the Register of Copyrights may deem appropriate.

*Id.*

155. 17 U.S.C. § 512(c)(1)(A)(iii), (d)(1)(c) (1994 & Supp. 1999).

exemption status under the DMCA by merely responding to copyright holders' complaints,<sup>156</sup> they are not compelled to take a proactive role in removing infringing works from their networks. Additionally, OSPs are fearful of engaging in monitoring because evidence of control could lead to greater liability. Even if eBay does not qualify as an OSP under the DMCA, case law provides copyright owners alternative approaches to obtaining a judgment against eBay, including indirect liability.

## V. SCOPE OF LIABILITY FOR AUCTION SITES IF THEY ARE HELD NOT EXEMPT UNDER THE DMCA

Before the enactment of the DMCA, the Ninth Circuit in *Fonovisa, Inc. v. Cherry Auction, Inc.*,<sup>157</sup> held a swap meet owner was indirectly liable for the copyright infringement of its vendors.<sup>158</sup> Like a swap meet, the Internet is fertile ground for assigning indirect liability arising from copyright infringement.<sup>159</sup> The potential liability of eBay is analogous to the liability imposed on the swap meet in *Fonovisa*, because if eBay is not exempt under the DMCA, it is nonetheless subject to the *Fonovisa* test.

In *Fonovisa*, a swap meet owner was sued because third-party vendors within its premises were routinely selling counterfeit copies of copyrighted recordings.<sup>160</sup> The defendant swap meet owner received an entrance fee from swap meet customers, retained power to exclude any vendor for any reason, and was aware that vendors were selling infringing works.<sup>161</sup> The vendors paid a daily rental fee to the defendant in exchange for the physical space at the swap meet grounds.<sup>162</sup>

### A. Vicarious Liability

In *Fonovisa*, the plaintiff argued the defendant was vicariously liable for copyright infringement. The court relied substantially on *Shapiro, Bernstein & Co. v. H. L. Green Co.*,<sup>163</sup> which held that "even in the absence

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156. See § 512(c)(2).

157. 76 F.3d 259 (9th Cir. 1996).

158. *Id.* at 264.

159. John B. Spanga, Jr. & Stacey R. Halpern, *Secondary Liability for Copyright and Trademark Infringement: Where Cyberspace and Retail Space Meet*, 40 ORANGE COUNTY L., Mar. 1998, at 9.

160. 76 F.3d 259, 263; see also Spanga, *supra* note 159.

161. *Fonovisa*, 76 F.3d at 261; see also Spanga, *supra* note 159.

162. *Fonovisa*, 76 F.3d at 261.

163. 316 F.2d 304 (2d Cir. 1963).

of an employer-employee relationship one may be vicariously liable if he has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.”<sup>164</sup>

In *Shapiro*, the defendant lacked the formal contractual right to control the direct infringer.<sup>165</sup> However, the court held the defendant liable because the defendant provided an audience for direct infringers, and was in a position to police.<sup>166</sup> *Fonovisa* analogized the swap meet to the defendant in *Shapiro*. The *Fonovisa* court found because the defendant had the option to terminate the vendors’ sales booths and to limit customer access to the swap meet area, the defendant controlled the vendors’ activities.<sup>167</sup> The court also held the swap meet itself received a financial benefit from the vendors’ sale of infringing items.<sup>168</sup> This financial benefit included the admission, parking fees and other incidental expenses paid by customers.<sup>169</sup>

To support a vicarious liability claim, a court must find that the defendant financially benefited from the infringing sale.<sup>170</sup> In *Fonovisa*, the court stated the defendant need not earn a direct commission from the sale of infringing works.<sup>171</sup> Instead, the court held the profit from admission and from elsewhere “flow[ed] directly from customers who want[ed] to buy the counterfeit recordings at bargain basement prices.”<sup>172</sup> The court found the swap meet derived substantial benefits because of the daily rental fee paid by each of the infringing vendors, in addition to the various fees paid by customers.<sup>173</sup> Therefore, the financial benefit prong was met despite the lack of a direct commission.

### B. Contributory Liability

Additionally, the Ninth Circuit held the swap meet in *Fonovisa* could be liable for contributory infringement.<sup>174</sup> To be liable for contributory infringement, one must have knowledge of the infringing activity and then

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164. *Fonovisa*, 76 F.3d at 262 (quoting *Gershwin Publ’g. Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

165. 316 F.2d at 307.

166. *Id.* at 308.

167. 76 F.3d at 262.

168. *Id.* at 263.

169. *Id.*

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

171. *See Fonovisa*, 76 F.3d at 263.

172. *Id.* (alteration in original).

173. *Id.* at 263.

174. *See id.* at 264.

induce, cause, or materially contribute to the infringing conduct of another.<sup>175</sup> The court found the swap meet had knowledge of the infringing sales in *Fonovisa*.<sup>176</sup> The key issue was whether the swap meet owner materially contributed to the infringing activity. Answering in the affirmative, the court stated,

We have little difficulty in holding that the allegations in this case are sufficient to show material contribution to the infringing activity. Indeed, it would be difficult for the infringing activity to take place in the massive quantities alleged without the support services provided by the swap meet. These services include, *inter alia*, the provision of space, utilities, parking, advertising, plumbing, and customers.<sup>177</sup>

Therefore, the court held the action of the swap meet owner was not passive for purposes of analyzing contributory infringement.

### C. How eBay is Like a Swap Meet

eBay is similar to the swap meet in *Fonovisa* because the third party vendors are analogous to eBay users who are selling copyrighted works without authorization. These users are not entitled to a fair use defense or a defense based on the first sale doctrine. Buyers are attracted to the website because of the availability of infringing items. Essentially, eBay acts as the Internet's open air bazaar or a "cyber swap meet." Like *Fonovisa*, eBay retains control over the operation of its website. Moreover, in *Fonovisa* the vendors paid a daily rental fee; similarly, sellers on eBay must pay to list their items. Although eBay refers to itself as "the world's on-line marketplace,"<sup>178</sup> it is analogous to a swap meet that operates on the Internet. Both provide public forums to buy unauthorized goods at the cost of copyright owners.

#### 1. Vicarious Liability for eBay

eBay is arguably liable for vicarious infringement. In its user agreement, eBay states, "You and eBay are independent contractors, and no agency, partnership, joint venture, employee-employer or franchiser-

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175. *Id.* (citing *Gershwin Publ'g. Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

176. *Fonovisa*, 76 F.3d at 264.

177. *Id.*

178. *EBay*, at <http://pages.ebay.com/> (last visited Aug. 24, 2000).

franchisee relationship is intended or created by this Agreement.”<sup>179</sup> Although eBay disclaims that a special relationship exists between itself and the direct infringers,<sup>180</sup> a relationship can be established regardless of this statement. Whether eBay is vicariously liable depends on proving eBay's control over the site and its derivation of a direct financial benefit from the infringing sales.

As mentioned in *Shapiro*, the plaintiff must prove the defendant had a right and ability to control the infringing activity and also derived a financial benefit from the infringement.<sup>181</sup> eBay receives a financial benefit directly related to the infringing work because eBay takes a percentage of the sale.<sup>182</sup> The next question is whether eBay has the right and ability to control the activity. As eBay reserves the right to terminate memberships, remove items from the site, and conduct other activities, which indicate a degree of control, this Internet auction site does not meet the DMCA's requirements for obtaining the safe harbor exemption.<sup>183</sup> Assuming this theory is correct, eBay should still be held monetarily liable for the infringing activities of third parties.

Like the swap meet in *Fonovisa*, eBay exercises full dominion over its auction site. eBay has rules regarding activity on its site, including its policy of terminating accounts of users with low feedback ratings. This similarity indicates eBay retains enough control for a finding of vicarious liability.

Additionally, in *Fonovisa*, the defendant policed the swap meet to make sure that the regulations were enforced. Although eBay does not use the words “policing” to describe its means of regulating its site, it does enforce its policy of revoking privileges and user status when people do not follow the rules.<sup>184</sup>

While asserting it has no control over the site or the infringing activity, eBay contradicts itself when it states,

Without limiting other remedies, we may immediately issue a warning, temporarily suspend, indefinitely suspend or terminate

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179. *EBay: User Agreement*, at <http://pages.ebay.com/help/community/png-user.html> (last visited Aug. 24, 2000).

180. *See id.*

181. *Shapiro, Bernstein & Co., v. H.L. Green Co.*, 316 F.2d 304, 309 (2d Cir. 1963).

182. *EBay: Are There Fees?*, at <http://www.ebay.com/help/basics/n-fees.html> (last visited Oct. 9, 2000).

183. This is assuming eBay at least fits the definition of an ISP under the DMCA. If it does, it must also comply with the other provisions to retain the safe harbor exemption from monetary liability.

184. Interview with studio executive who wishes to remain anonymous, in Los Angeles, Cal. (Oct. 4, 1999).

your membership and refuse to provide our services to you: (a) if you breach this Agreement or the documents it incorporates by reference; (b) if we are unable to verify or authenticate any information you provide to us; or (c) if we believe that your actions may cause legal liability for you, our users or us.<sup>185</sup>

Thus, despite eBay's insistence that it is merely a venue, it retains considerable control. This control provides eBay power to remove an item when a copyright holder notifies that the auction item is infringing the owner's rights.

## 2. Contributory Liability for eBay

Alternatively, eBay may also be liable for contributory infringement. The question, according to *Fonovisa*, is whether one has knowledge of the infringing activity and induces, causes, or contributes to the infringing activity.<sup>186</sup> This is more difficult to prove. Although the defendant in *Fonovisa* had actual knowledge, it is clear that eBay has at least constructive knowledge of the infringing activity on its site. Copyright owners e-mail eBay to request that the company remove infringing items from its site. Additionally, eBay has constructive knowledge of the contents of its site because it receives a direct percentage of each sale. Therefore, eBay is aware of the items being sold.

However, it is more difficult to prove that eBay substantially contributed to the infringing activity. In *Fonovisa*, the court held the swap meet contributed to the direct infringement because it provided the venue for the unauthorized sales of massive amounts of copyrighted works.<sup>187</sup> eBay similarly takes a percentage of the thousands of sales transactions that violate copyright laws.<sup>188</sup> Providing this forum, or rather, a haven for illegal sales, should be sufficient contribution for a finding of contributory liability.

### *D. Why eBay Does Not Qualify for OSP Exemption Under the DMCA*

To be liable under a theory of vicarious or contributory infringement, eBay must fail to qualify as an OSP under the DMCA, or if it does qualify, eBay must violate one of the conditions required for the safe harbor

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185. *EBay: User Agreement*, at <http://pages.ebay.com/help/community/png-user.html> (last modified Sept. 27, 1999).

186. *Fonovisa*, 76 F.3d at 264 (citing *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

187. 76 F.3d at 265.

188. See *supra* note 29.



exemption. Although the definition of a service provider in the DMCA is nebulous and broad, it is still unlikely that eBay would qualify as an OSP. This is because eBay does not only serve to route or connect on-line digital communications, like a BBS or a traditional OSP. Moreover, eBay updates its site, controls the material on its site, and frequently chooses to highlight certain auctions, all of which indicate that it does not merely act as a passive connector. Specifically, the rules eBay places in its User Agreement regarding the listing of items, proves it does not merely serve as a router of information, but rather exerts its presence over its website activity. Therefore, eBay would claim that it does not modify the content of the material as sent or received, as the DMCA commands in order to attain OSP status. However, this reasoning is flawed because eBay has rules concerning the number of times a user can list a specific item, as well as rules regarding the length of text describing the item. Therefore, eBay monitors the content of the material sent or received, which removes it from OSP exemption status under the DMCA.

eBay would argue that it is an OSP, under the broader, more inclusive service provider definition, which requires only that the service provider offer on-line services or network access. But even if eBay is considered a service provider, it would still have to comply with the other requirements of § 512(c). Because eBay would have a difficult time proving that it complies with the other requirements of § 512(c), eBay may still be subject to indirect liability.

Assuming, *arguendo*, that eBay fits within the DMCA's second definition of service provider, it still would not be liable under the Act. The DMCA requires an OSP to respond expeditiously to all claims to remove infringing items. Frequently, eBay allows a sale to go through without responding to claims of copyright holders.<sup>189</sup> Additionally, the DMCA requires that eBay cannot have actual knowledge of the infringing material. However, eBay does have such knowledge as it makes a profit from each unauthorized sale. According to the DMCA, actual knowledge is not required if the activity is apparent, as it is in this case.<sup>190</sup> Finally, even if eBay was considered an OSP, it would not be exempt from monetary liability. Under the DMCA, if the OSP has the right and ability to control the activity, an OSP cannot financially benefit directly from the infringing activity.<sup>191</sup> As discussed above, eBay violates both of these conditions.

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189. Interview with studio executive who wishes to remain anonymous, in Los Angeles, Cal. (Oct. 4, 1999).

190. See *supra* note 122.

191. 17 U.S.C. § 512(d)(2) (1994 & Supp. 1999).

## V. CONCLUSION

EBay provides a forum for on-line trading and enables consumers to locate difficult to find items. In this process, eBay earns a percentage from each transaction.<sup>192</sup> When the items infringe on copyright holders' rights, eBay cannot attempt to shield itself with the cloak of the DMCA. Even if a court stretches the definition of service provider as it did in *Napster*, eBay would still not satisfy any of the DMCA's safe harbor provisions for OSPs. Therefore, as piracy on the Internet increases, movie studios will have an incentive to hold eBay monetarily accountable through indirect claims of vicarious or contributory liability. Until the DMCA is amended to encourage OSPs to screen their sites for copyright infringement, eBay runs the risk of vast liability for its users' infringing actions.

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192. See *supra* note 29.

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