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Chanel's Ongoing Trademark Battle with Luxury Resellers

By Jacqueline Chan

Luxury fashion brands such as Gucci and Chanel are recognized across the world by their respective trademarks and logos which adorn their couture apparel and accessories. Products from these high fashion brands are often seen as a status symbol due to their high price point, which in turn make these products are highly sought after by consumers. Thanks to cost conscious consumers with an eye for luxury fashion, the secondhand luxury fashion market is booming.¹ Bain's luxury goods market study estimated that the secondhand luxury market reached \$38 billion in 2021, and according to Forbes, that market grew five-times faster than the firsthand luxury market between 2017 and 2021.² Much of this growth comes from online platforms specializing in the sale of pre-owned luxury goods.³

However, when buying pre-owned luxury goods from secondhand sellers online, consumers may have difficulty determining the authenticity of said goods. Some major secondhand resale platforms, like TheRealReal (TRR) and What Goes Around Comes Around (WGACA), remove this uncertainty by authenticating all the luxury goods sold on their

sites.⁴ Some luxury fashion brands, such as Gucci and Burberry, have embraced the secondhand luxury market by partnering with online resale platforms.⁵ Others are not so welcoming. For example, Chanel has expressed disapproval towards the fashion resale market by filing trademark infringement lawsuits against two of the most prominent fashion resale platforms, TRR and WGACA.⁶

BACKGROUND

Under § 1114 of the Lanham Act, those who use "any reproduction, counterfeit, copy, or colorable imitation of a registered mark" in the stream of commerce without the consent of the registrant may be subject to civil liability.⁷ The public policy reasoning behind this is to prevent consumer confusion so that consumers can reasonably trust a trademarked product to be from the registrant brand.⁸ Courts generally apply an eight factor test known as the "Polaroid factors" to determine whether a counterfeit trademark presents likelihood of confusion for trademark infringement.⁹ These factors include:

- (1) Strength of mark;
- (2) Proximity of goods;
- (3) Similarity of marks;

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- (4) Any evidence of actual confusion;
 - (5) Marketing channels used;
 - (6) Type of goods and degree of care likely to be exercised by purchaser;
 - (7) Defendants' intent in selecting mark; and
 - (8) Likelihood of expansion of product lines.¹⁰

However, trademark infringement generally does not apply to the sale of genuine goods bearing a true mark even if the sale is not authorized by the mark owner.¹¹ Under the first sale doctrine, once a genuine trademarked product is sold, the registrant loses the right to control the distribution or resale of that item.¹² However, to use this as a defense, the defendant must prove that the registrant authorized the first sale of the trademarked product, as a trademarked product is only genuine if the initial sale was authorized by the registrant.¹³ In addition, the defendant cannot use owner's trademark or brand in a manner that is likely to cause consumers to be confused as to the brand owners connection or association with the reseller.

In March 2018, Chanel filed a wide-ranging lawsuit against WGACA, alleging, among other things, that WGACA infringed on Chanel's trademarks by selling non-genuine Chanel-branded products as authentic, and selling Chanel-branded products that Chanel never intended to put into the stream of commerce in the first place.¹⁴ In November 2018, Chanel filed a similar lawsuit against TRR, accusing TRR of infringing on Chanel's trademark by selling counterfeit products presented as authentic.¹⁵

CHANEL'S LAWSUITS AND RELATED CASES

Tiffany (NJ) Inc. v. eBay Inc., involved a similar situation to these Chanel suits, where the luxury brand Tiffany accused eBay of trademark infringement.¹⁶ The court held that eBay did not infringe on Tiffany's trademarks in allowing users to sell counterfeit Tiffany-branded goods on the platform because eBay did not have knowledge of the specific listings of counterfeit goods.¹⁷ Although eBay knew that counterfeit Tiffany goods were being sold on the platform, Tiffany failed to prove that eBay had knowledge of the specific listings of counterfeit

goods.¹⁸ However, unlike eBay and most resale platforms, where outside vendors sell goods to directly consumers with limited oversight, WGACA and TRR sell and authenticate all the luxury goods sold on their respective platforms.¹⁹ In such situations *Tiffany (NJ) Inc.* may not directly apply, though the law continues to evolve and context is everything.

In *Chanel, Inc. v. WGACA, LLC*, the court held that WGACA infringed on Chanel's trademarks when it sold over 700 Chanel-branded point-of-sale items.²⁰ Although these point-of-sale items were authorized for manufacture and met Chanel's quality control standards, they were made by Chanel for display purposes in Chanel boutiques only and were never intended for sale.²¹ The court held that because Chanel did not authorize the first sale of these products, the products are not genuine and the first sale doctrine does not apply, so therefore, WGACA is liable for trademark infringement regarding these point-of-sale items.²²

The court denied summary judgment in determining whether WGACA infringed on Chanel's trademarks by selling over 50 Chanel-made bags with voided serial numbers because there is a genuine issue of fact as to whether Chanel initiated the first point of sale or whether the bags in question ever passed through Chanel's quality control procedures.²³ However, the court also held that WGACA is liable for trademark infringement when it sold 11 Chanel-branded bags allegedly stolen from Chanel's Renato Corti factory because these goods did not go through Chanel's quality control processes and Chanel did not initiate or authorize the sale of these goods.²⁴ Chanel also argued that these 11 bags were counterfeits not made by Chanel, but the court denied summary judgment on this ground because a reasonable jury could find either way as to whether the bags were manufactured by Chanel.²⁵

Chanel accused WGACA of selling two additional counterfeit bags with Chanel branding and pirated serial numbers.²⁶ The court ruled for Chanel regarding one bag that was an obvious counterfeit because the bag's serial number was associated with a materially different bag but denied summary judgment regarding the second bag because there was a genuine dispute as to the manufacturing of the bag in question.²⁷

In *Chanel, Inc. v. RealReal, Inc.*, Chanel accused TRR of marketing and selling at least seven counterfeit Chanel bags, and the court held that Chanel

adequately alleged this claim, though the court has not yet made any further decisions on the matter.²⁸

Although the litigation between Chanel and the fashion resellers is ongoing, the results from the litigation so far highlight potential risks for those authenticating and reselling luxury goods. In Chanel's cases against TRR and WGACA, Chanel only identified seven allegedly counterfeit products sold on TRR and 13 allegedly counterfeit products sold on WGACA.²⁹ Given that TRR and WGACA have thousands of Chanel branded products for sale at any given time, these numbers are relatively low such that the issue may not be pervasive, but could put consumers at risk if not careful as the reseller's process is not perfect.

Based on Chanel's lawsuit against WGACA, non-genuine goods, rather than counterfeits, are perhaps the more pressing source of risk for luxury resellers who authenticate products. Most Chanel's trademark infringement allegations against WGACA come from WGACA's sales of Chanel-made products that were manufactured by Chanel and met Chanel's quality control standards but were never authorized for sale by Chanel in the first place.³⁰ Chanel's other allegations against WGACA involve products that did not go through Chanel's quality control procedures and were not authorized for sale by Chanel. This suggests that for luxury resellers, determining the validity of the first sale of the product is just as important ensuring the product is not a counterfeit.

Eyes will be on the ongoing litigation between Chanel and WGACA and TRR, as these decisions may shape the modern luxury reseller industry.

Further, platforms that choose to authenticate secondhand luxury goods to consumers regardless may consider checking the origins and first sale of those secondhand luxury goods to ensure the goods were authorized for sale in the first place. Eyes will be on the ongoing litigation between Chanel and WGACA and TRR, as these decisions may shape the modern luxury reseller industry.

Notes

1. See Achim Berg, et. al., Welcome to luxury fashion resale: Discerning customers beckon to brands, McKinsey

- & Co. (Nov. 29, 2021), <https://www.mckinsey.com/industries/retail/our-insights/welcome-to-luxury-fashion-resale-discerning-customers-beckon-to-brands>.
2. See Pamela N. Danziger, Luxury Resale Market Is On Fire And The RealReal Lit The Fuse, *Forbes* (Feb 5, 2022), <https://www.forbes.com/sites/pamdanziger/2022/02/05/luxury-resale-is-on-fire-and--thereal-lit-the-fuse/?sh=254cc16e13c>; Claudia D'Arpizio, et. al., From Surging Recovery to Elegant Advance: The Evolving Future of Luxury, Bain & Co. (Dec. 20, 2021), <https://www.bain.com/insights/from-surging-recovery-to-elegant-advance-the-evolving-future-of-luxury/>.
3. See Berg, *supra* note 1.
4. See e.g., Danziger, *supra* note 2.
5. See Emily Farra, Gucci and The RealReal Announce a Game-Changing Partnership, *Vogue* (Oct. 5, 2020), <https://www.vogue.com/article/gucci-the-realreal-partnership-secondhand-consignment>; Millie Dent, Burberry partners with The RealReal to test reselling high fashion, *CNN* (Oct. 7, 2019), <https://www.cnn.com/2019/10/07/business/burberry-announces-real-real-partnership/index.html>.
6. See generally Chanel, Inc. v. WGACA, LLC, 18 Civ. 2253 (LLS), (S.D.N.Y. Mar. 28, 2022); Chanel, Inc. v. RealReal, Inc., 449 F. Supp. 3d 422 (S.D.N.Y. 2020).
7. 15 U.S.C. § 1114; see Julie Tamerler, The Ship of Theseus: the Lanham Act, Chanel, and the Secondhand Luxury Goods Market, 32 *Fordham Intell. Prop. Media & Ent. L.J.* 425 (2022).
8. See Tamerler, *supra* note 7.
9. *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir.1961).
10. *Id.*
11. *Liz Claiborne, Inc. v. Mademoiselle Knitwear, Inc.*, 979 F. Supp. 224, 230 (S.D.N.Y. 1997).
12. See *id.*
13. See *id.*
14. Chanel, Inc. v. WGACA, LLC, 18 Civ. 2253 (LLS) at 5.
15. Chanel, Inc. v. RealReal, Inc., 449 F. Supp. 3d 422 at 428.
16. *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 109 (2nd Cir 2010).
17. *Id.*
18. *Id.*
19. See e.g., Chanel, Inc. v. RealReal, Inc., 449 F. Supp. 3d 422 at 428.
20. Chanel, Inc. v. WGACA, LLC, 18 Civ. 2253 (LLS) at 38.
21. *Id.* These point-of-sale items include plastic vanity trays and tissue box holders used in Chanel boutiques.
22. *Id.*
23. *Id.* at 31. Chanel products are assigned unique serial numbers once the product has been authorized for

manufacture and determined to meet Chanel's quality requirements.

24. Id. at 41.

25. Id. at 45.

26. Id.

27. Id. at 46.

28. Chanel, Inc. v. RealReal, Inc., 449 F.Supp. 3d 422 at 433.

29. See id.; Chanel, Inc. v. WGACA, LLC, 18 Civ. 2253 (LLS) at 41, 45.

30. See Chanel, Inc. v. WGACA, LLC, 18 Civ. 2253 (LLS) at 7.

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