

# Chanel TM Ruling Shows Resellers Must Tread Carefully

By **Stephen Barrett and Gabriela Rios** (April 30, 2024)

The cost of designer handbags has been steadily increasing, with goods such as Chanel's classic handbag now topping out at more than \$10,000.

As The Wall Street Journal recently observed, "Designers are charging more for their most recognizable bags to maintain the appearance of exclusivity."<sup>[1]</sup>

As a result, cost-conscious consumers who want a taste of luxury are turning to the secondhand marketplace for more affordable, previously owned gems.

In response, an entire segment of social media influencers has popped up around the resale market, with a corresponding surge in trademark cases as luxury brands assert their intellectual property rights against resellers.<sup>[2]</sup> As a general matter, under the first sale doctrine, designer bags can be resold freely, and brands are unable to prohibit such sales.

However, a relevant aspect of reselling is the need to use the original brand's trademark as a source identifier to refer to the specific item being sold. This practice is known as nominative fair use, which is permitted so long as there is no likelihood of confusion about the source of the reseller's products or the mark holder's sponsorship of, or affiliation with, the reseller.

A recent jury verdict in *Chanel Inc. v. What Goes Around Comes Around LLC* serves as a reminder that businesses must routinely assess their practices to ensure they are protected by the first sale and fair use doctrines.

In *WGACA*, Chanel brought claims for trademark infringement and false association, alleging that *WGACA* sold infringing products and improperly used Chanel's marks in its advertising.

On Feb. 6, a jury in the U.S. District Court for the Southern District of New York ruled against the reseller and awarded the luxury brand \$4 million in damages. The matter appears destined for appeal.

## Background

Chanel specializes in luxury apparel and leather goods, and owns the trademarks "Chanel" and "CC," as well as Coco Chanel's publicity rights.

*WGACA* is a retailer that specializes in the sale of secondhand luxury clothing, bags and accessories, and guarantees the authenticity of all products sold on its website.

Among the products sold by *WGACA* were Chanel products, which were not purchased from Chanel, but rather sourced from individuals and international wholesalers.

Chanel principally objected to *WGACA*'s advertising practices, such as the use of:



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- Retail displays prominently employing Chanel's trademarks, including a giant Chanel No. 5 perfume bottle and a Chanel-branded cake;
- Direct-to-consumer emails prominently displaying Chanel's trademarks;
- The #WGACACHanel hashtag in social media posts;
- WGACA sales ads prominently featuring Chanel items; and
- Historical images of and quotations from Coco Chanel on WGACA's website.

A central focus of the Lanham Act is to protect against consumer confusion as to the source or origin of goods.

Chanel alleged that WGACA's advertising methods falsely implied an affiliation between the two. The parties did not dispute that Chanel never had an affiliation with WGACA.

### **Outcome of the Litigation**

Chanel asserted claims for trademark infringement and false association under the Lanham Act.

In response, WGACA argued that the suit was an attempt by Chanel to gain control over the secondary market and foreclose the lawful resale of goods.

To prevail on a Lanham Act claim, a plaintiff must prove a probability of confusion as to the source of the product. However, when an alleged infringer is using another's trademark to identify the plaintiff's goods, the Polaroid factors<sup>[3]</sup> — used for assessing the likelihood of confusion — are adapted to include the nominative fair use factors.

The application of these factors focuses on the ultimate question of whether consumers are likely to be confused as to the origin of the products.<sup>[4]</sup>

The nominative fair use factors, as applied in the context of this case, were described as follows:<sup>[5]</sup>

- Whether the use of the Chanel marks were necessary to describe Chanel's products and WGACA's products, i.e., whether the products were not readily identifiable without use of the marks;
- Whether WGACA used only so much of the Chanel mark as necessary to identify the products; and
- Whether WGACA did anything that would, in conjunction with the marks, suggest sponsorship or endorsement by Chanel.

In its summary judgment opinion, the court looked closely at the second factor, which requires an analysis as to whether the alleged infringer "stepped over the line" into likelihood of confusion by using the senior user's mark — here, Chanel — too prominently or too often in terms of size, emphasis or repetition.<sup>[6]</sup>

On this issue, WGACA attempted to analogize its case to *Chanel v. The RealReal Inc.*, another ongoing case in the Southern District of New York brought by Chanel against a retailer of secondhand designer bags.[7]

But, in *The RealReal*, Chanel did not identify facts suggesting The RealReal displayed Chanel-branded goods more prominently than other luxury brands, or that The RealReal used the Chanel marks in any capacity other than to identify Chanel products as originating with Chanel.

For example, as related to website advertising, The RealReal had a "Chanel" page advertising Chanel products, but also maintained similar brand-specific pages for nine other luxury brands.

Further, in *The RealReal*, the court noted that The RealReal's actions did not create an affiliation with Chanel because its website — unlike WGACA's — expressly disclosed that the brands identified were not involved in the product authentication process and were not affiliated with the reseller.

In the absence of a similar disclaimer, the court in *Chanel v. WGACA* found that there were issues of material fact and therefore denied summary judgment, leading to the February jury trial and adverse verdict against WGACA.

## **Implications**

The outcome of *WGACA* did not alter the first sale doctrine.

Resellers can rest assured that the Lanham Act does not impose liability for the resale of genuine goods bearing a true mark — even when the sale is not authorized by the mark owner — because such a sale does not inherently create consumer confusion or deceive the public.[8] If a product is genuine, the mark holder has no right to control subsequent unauthorized resales.[9]

But notwithstanding the first sale doctrine, brand owners remain concerned about the impact of the secondary market. Replicas and knockoffs have always been around, but technology has now made it possible for nefarious actors to create so-called superfakes that are extremely similar to the authentic items.[10]

In addition to replicas, unauthorized goods may also be considered nongenuine if they do not conform to the trademark holder's quality control standards — such as through inspections — even if originally manufactured by the trademark holder.[11]

Given these concerns, where brand owners are not involved in a resellers' product authentication process, they will continue to litigate where the line should be drawn for nominative fair use.

Against that backdrop, brand owners will likely continue to insist that resellers' advertising materials draw a clear distinction between the original source of the goods and the secondary market. The outcome of *WGACA* makes clear that, in some circumstances, brands can succeed on Lanham Act claims if that distinction is not sufficiently bright.

Consequently, resellers should be vigilant in examining how extensively they use third-party trademarks, particularly as it relates to advertising.

While the first sale and nominative fair use doctrines have not been altered by WGACA, the market has been reminded that these defenses are often fact-specific and should not be taken for granted. Particularly for businesses in the hot resale market, the use of disclaimers is crucial.

Disclaimers should be clear and concise, avoiding long, vague or contradictory language, and disclaimers should be efficient in expressly conveying to consumers that while a business may be reselling other brands' products, the business ultimately does not have any affiliation or association with those brands.

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[1] <https://www.wsj.com/finance/stocks/why-prices-for-the-worlds-most-expensive-handbags-keep-rising-ef49c014> (last accessed April 24, 2024).

[2] E.g., <https://finance.yahoo.com/news/high-paying-side-hustle-thousands-141646378.html> (last accessed April 24, 2024).

[3] *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492 (2d Cir. 1961).

[4] *Arrow Fastener Co. v. Stanley Works*, 59 F.3d 384, 400 (2d Cir. 1995) (quoting *Kelly-Brown v. Winfrey*, 717 F.3d 295, 307 (2d Cir. 2013)).

[5] *Chanel, Inc. v. WGACA, LLC*, 18 Civ. 2253, 2022 U.S. Dist. LEXIS 55880, at \*16-17 (S.D.N.Y. Mar. 28, 2022) (citing *Int'l Info. Sys. Sec. Certification Consortium Inc. v. Sec. Univ., LLC*, 823 F.3d 153, 168 (2d Cir. 2016)).

[6] *WGACA, LLC*, 2022 U.S. Dist. LEXIS 55880, at \*24 (citing *Int'l Info. Sys.*, 823 F.3d at 168).

[7] *Chanel, Inc. v. The RealReal, Inc.*, 1:2018-cv-10626 (S.D.N.Y.).

[8] *Polymer Tech. Corp. v. Mimran*, 975 F.2d 58, 91 (2d Cir. 1992).

[9] *Bel Canto Design Ltd. v. MSS Hifi, Inc.*, 837 F. Supp. 2d 208, 222 (S.D.N.Y. 2011).

[10] <https://abcnews.go.com/Business/superfakes-copycat-manufacturers-becoming-increasingly-skilled-producing-knock/story?id=109344382> (last accessed April 24, 2024).

[11] *El Greco Leather Prods. Co. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986).