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The Angel Wears Prada, the Devil Buys It on The RealReal: Expanding Trademark Rights Beyond the First Sale Doctrine

Junajoy Vinoya Frianeza

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The Angel Wears Prada, the Devil Buys It on The RealReal: Expanding Trademark Rights Beyond the First Sale Doctrine

ABSTRACT

Luxury brands derive their goodwill from the high-class exclusivity and first-rate quality signified in their trademarks. The Trademark Act of 1946, commonly known as the Lanham Act, grants trademark holders the right to control use of their mark. However, under common law, the first sale doctrine restricts trademark protection after holders authorize the initial sale of their trademarked product. Such limitation particularly jeopardizes the luxury industry as trademark holders ultimately bear the loss of goodwill when counterfeit luxury goods enter the market due to the negligence of resellers. This Comment illustrates how blockchain authentication offers all luxury industry participants—the brands, the consumers, and the resellers—added protection under the material difference and quality control exceptions to the first sale doctrine of trademark law. Furthermore, this Comment proposes codification of the “first resale” doctrine to narrow the scope of the first sale doctrine defense to trademark infringement for the purpose of fostering competition and maintaining quality in the luxury industry.

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I. INTRODUCTION: PRESERVING GOODWILL IN THE MODERN LUXURY
INDUSTRY

Coco Chanel once said: “Elegance is refusal.”¹ And almost one century since it first registered its iconic “double C” trademark in the United States, Chanel proudly continues to uphold its legacy of elegant refusal through relentless litigation against trademark infringers, especially those in the rising resale market.² While other luxury brands have gradually extended their olive branch to resellers in the spirit of sustainability, Chanel single-handedly keeps trademark infringement litigation in vogue—and for good reason.³

Luxury brands derive their value from the high-class exclusivity and first-rate quality signified in their inimitable trademarks.⁴ More so than others, the luxury industry needs robust trademark protection, not only to preserve centuries of innovation pioneered by world-renowned brands, but more importantly to invite more creatives into the exclusive universe of luxury goods commerce.⁵ However, such valiant efforts are often frustrated by luxury brands that concede their goodwill—either actively, by forming direct partnerships with emerging resellers, or passively, by choosing not to pursue valid

1. Suzy Menkes, *Is Elegance Refusal?*, VOGUE ITALIA (Nov. 19, 2015), <https://www.vogue.it/suzy-menkes/suzy-menkes/2015/11/is-elegance-refusal>.

2. Cara O’Hanlon, *Brand Spotlight: History of the Chanel Trademark*, WATSON & YOUNG, <https://watsonandyoung.com/2020/08/13/brand-spotlight-history-of-the-chanel-trademark/> (last visited Oct. 3, 2023).

3. See Sharon Edelson, *The RealReal Cites Antitrust Concerns in Counterclaim to Chanel Lawsuit*, FORBES (Feb. 1, 2021, 4:02 PM), <https://www.forbes.com/sites/sharonedelson/2021/02/01/the-realreal-cites-antitrust-concerns-in-counterclaim-to-chanel-lawsuit/?sh=71d116737360>.

4. See Betina A. Baumgarten, *One Too Many Sticks for the Trademark Bundle? The Unintended Consequences of Luxury Brands’ Push for a Post-First Sale Authentication Right*, 42 LOY. L.A. ENT. L. REV. 111, 120 (2022) (“Consumers readily recognize two interlocking black ‘Cs’ as Chanel vertically descending and overlapping ‘Y,’ ‘S,’ and ‘L,’ as Yves Saint Laurent (now referred to as Saint Laurent), and an ‘L’ overlapping a ‘V’ as Louis Vuitton. Consumers also associate distinctive colors, such as red on the sole of a shoe as Christian Louboutin, red and green striped webbing as Gucci, and robin’s egg blue as Tiffany. These marks, and many others, are just a few examples of luxury brand trademarks that, along with the products that bear them, are a brand’s most valuable asset. And once a consumer is willing to pay for a product simply because it bears a famous trademark, trademark protection becomes all the more imperative for brands to obtain and protect at all costs.”).

5. See Kati Chitrakorn, *Luxury Is Culture Now. Here’s How*, VOGUE BUS. (July 16, 2021), <https://www.voguebusiness.com/companies/how-luxury-brands-become-cultural-curators-gucci-saint-laurent-vetements> (“Creative collaborations are springing up around the industry The desired outcome: building cachet by establishing shared values and moments that are bigger than the brands themselves, experts say. Such curation allows brands to become part of the cultural zeitgeist in a seemingly organic way [T]oday’s creative directors are less known for being couturiers, and instead as people who can generate a lot of ideas”).

trademark infringement claims.⁶ By relinquishing their goodwill to the resale market, luxury trademark holders ultimately jeopardize the longevity of their brands.⁷

From the myopic perspective, partnerships between luxury brands and resellers directly resolve the dilemma within the luxury industry for trademark holders: balancing the seemingly conflicting values of exclusivity and sustainability to safeguard the vitality of their trademarked brands.⁸ However, amidst humble efforts by luxury brands to capitalize on the ever-growing trend towards more sustainable consumerism while evading public scrutiny of their infamously wasteful practices lies the pervasive issue of long-term brand preservation.⁹

Although partnerships between luxury trademark holders and luxury resale companies may generate considerable profit in the short-run, the largely unregulated resale industry will eventually undermine the integrity of the luxury industry if federal trademark law does not bolster the rights of trademark holders.¹⁰ This Comment highlights the dissonance between the *raison d'être*¹¹ of the luxury industry and the modern state of trademark protection.¹²

6. See discussion *infra* Section III.A.1 (discussing collaborations between luxury brands and resellers); Edelson, *supra* note 3 (noting that many “brands are embracing the circular economy”).

7. See discussion *infra* Part IV. See generally Baumgarten, *supra* note 4, at 111 (“Some fashion brands construe resale as an opportunity to diversify and expand their client base; while others, who firmly subscribe to a luxury philosophy grounded in exclusivity, believe resale threatens everything from their brand allure to their very existence. Indeed, when Chanel declared that ‘only Chanel itself can know what is genuine Chanel,’ it opened Pandora’s box by providing far more than a peek into its litigation strategy. Chanel’s declaration all but declared war on the secondary resale market in not only undermining the authenticity of authentic products in the resale stream of commerce, but in claiming the sole right to preserve, protect and police its marks throughout its branded products’ life, well after the first sale.”).

8. See Edelson, *supra* note 3 (discussing Chanel’s approach to protecting its brand exclusivity, while other brands are incorporating sustainable practices into their brand identity).

9. See Stéphane JG Girod, *Luxury Is Learning to Deal with the Contradictions of Sustainability*, FORBES (July 1, 2021, 11:06 AM), <https://www.forbes.com/sites/stephanegirod/2021/07/01/luxury-is-learning-to-deal-with-the-contradictions-of-sustainability/?sh=56469b715266> (“Sustainability calls for a tradeoff between encouraging growth and stunting it. Cyrille Vigneron, CEO of Cartier, calls it frugality. Some brands have accepted this and are on their way to creating circular business models, aligned with the regeneration that sustainability epitomizes, but the challenges are real. A major one is that luxury is supposed to be durable and iconoclastic, which is at odds with circularity.”).

10. See discussion *infra* Part IV.

11. See *Raison D’être*, MERRIAM-WEBSTER, <https://www.merriam-webster.com/dictionary/raison%20d%27être> (last visited Oct. 6, 2023) (defining *raison d’être* as “reason or justification for existence”).

12. See discussion *infra* Parts III–V.

Part II of this Comment discusses the development of trademark law in the United States.¹³ Part III of this Comment introduces the dynamic between key brands and resellers in the luxury industry and presents the trademark infringement claim in *Chanel, Inc. v. The RealReal, Inc.*¹⁴ Part IV of this Comment applies the first sale doctrine and its exceptions to the modern luxury industry with the advent of blockchain authentication methods.¹⁵ Part V of this Comment proposes codification of a “first resale” doctrine to protect innovation in the luxury industry and critiques the tradeoff between exclusivity and sustainability within the luxury business.¹⁶ Part VI briefly concludes.¹⁷

II. CONTEXTUALIZING TRADEMARK PROTECTION FOR THE LUXURY INDUSTRY

A. *The Development of United States Trademark Law*

1. Making a Mark: USPTO Trademark Registration Affords Holders Greater Protection Against Infringement Under the Lanham Act

Trademarks use words, phrases, symbols, or designs to identify the source of goods and distinguish them from others.¹⁸ Both common law and registered trademark holders have standing to sue for trademark infringement: the former under the Lanham Act § 43(a)(1)(A) “false designation of origin” cause of action and the latter under § 32(1) of the Act.¹⁹ Common law trademark

13. See discussion *infra* Part II.

14. See discussion *infra* Part III.

15. See discussion *infra* Part IV.

16. See discussion *infra* Part V.

17. See discussion *infra* Part VI.

18. Compare 15 U.S.C. § 1127 with 17 U.S.C. § 102 (comparing trademark protections to copyright protections). Copyrights are “original works of authorship fixed in any tangible medium of expression.” 17 U.S.C. § 102. The Constitution gives Congress power “[t]o promote the Progress of Science . . . by securing for limited Times to Authors . . . the exclusive Right to their respective Writings.” U.S. CONST. art. I, § 8, cl. 8. See generally U.S. PATENT & TRADEMARK OFFICE, PROTECTING YOUR TRADEMARK: ENHANCING YOUR RIGHTS THROUGH FEDERAL REGISTRATION 2 (2016), https://www.uspto.gov/sites/default/files/BasicFacts_1.pdf [hereinafter PROTECTING YOUR TRADEMARK] (“Trademarks, copyrights, and patents protect different types of intellectual property. A trademark typically protects brand names and logos used on goods and services. A copyright protects an original artistic or literary work. A patent protects an invention.”).

19. 15 U.S.C. § 1125(a) (“Any person who, on or in connection with any goods . . . or any container for goods, uses in commerce . . . any false designation of origin . . . which is likely to cause confusion,

rights arise from the first actual and bona fide use of the mark in commerce within a particular geographic area.²⁰ While trademark holders are not required to register their mark with the United States Patent and Trademark Office (USPTO), such federal registration rewards the holder with certain legal benefits, including public notice and legal presumption of ownership of the mark and use of the “®” federal registration symbol.²¹

A trademark must be “distinctive” to be federally registered—the mark must distinguish the goods of the applicant from the goods of others.²² Courts often classify trademarks by level of distinctiveness: generic, descriptive, suggestive, arbitrary, or fanciful.²³ Ordinarily, generic terms are ineligible for trademark protection unless consumers do not perceive the term as signifying one general class of goods or services.²⁴ A descriptive mark merely describes

or to cause mistake, or to deceive . . . as to the origin, sponsorship, or approval of his or her goods . . . shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.”); *id.* § 1114(1) (addressing civil liability for infringement of a registered mark). To claim trademark infringement, the plaintiff must show: 1) a valid and legally protectable mark, 2) ownership of the trademark, and 3) use of the mark by the defendant. *See id.* § 1114. To determine likelihood of confusion, many courts consider eight factors established by the Second Circuit in *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492, 495 (2d Cir. 1961) (these factors include “the strength of his mark, the degree of similarity between the two marks, the proximity of the products, the likelihood that the prior owner will bridge the gap, actual confusion, and the reciprocal of defendant’s good faith in adopting its own mark, the quality of defendant’s product, and the sophistication of the buyers”).

20. *See* PROTECTING YOUR TRADEMARK, *supra* note 18, at 11 (“[O]wning a federal trademark registration on the Principal Register provides a number of significant advantages over common law rights alone, including: [a] legal presumption of [] ownership of the mark and [] exclusive right to use the mark nationwide on or in connection with the goods[] listed in the registration (whereas . . . common law rights exist only for the specific area where the mark is used).”); *Soc. Techs. L.L.C. v. Apple, Inc.*, 4 F.4th 811, 816–17 (9th Cir. 2021) (“Use in commerce means ‘the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark.’”).

21. PROTECTING YOUR TRADEMARK, *supra* note 18, at 11 (listing advantages to owning a federal trademark registration on the principal register in comparison to solely common law rights).

22. *See* 15 U.S.C. § 1052 (listing exceptions to federal trademark registration on the principal register based on nature of the mark).

23. *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768 (1992); *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976) (“Arrayed in an ascending order which roughly reflects their eligibility to trademark status and the degree of protection accorded, these classes are (1) generic, (2) descriptive, (3) suggestive, and (4) arbitrary or fanciful. The lines of demarcation, however, are not always bright. Moreover, the difficulties are compounded because a term that is in one category for a particular product may be in quite a different one for another, because a term may shift from one category to another in light of differences in usage through time, because a term may have one meaning to one group of users and a different one to others, and because the same term may be put to different uses with respect to a single product.”) (footnotes omitted).

24. *See* U.S. Patent & Trademark Office v. Booking.com B.V., 140 S. Ct. 2298, 2301 (2020) (“A term styled ‘generic.com’ is a generic name for a class of goods or services only if the term has that

characteristics of the good or the good itself rather than its source and thereby “must achieve significance ‘in the minds of the public’ as identifying the applicant’s goods or services—a quality called ‘acquired distinctiveness’ or ‘secondary meaning’” in order to be placed on the principal register along with suggestive, arbitrary, and fanciful marks.²⁵

The USPTO registers trademarks on the principal register to serve as both “constructive notice of the registrant’s claim of ownership”²⁶ and “prima facie evidence of the validity of the registered mark.”²⁷ Meanwhile, the USPTO places trademarks capable of distinguishing goods of an applicant, but not inherently distinctive enough to be eligible for the principal register, on the supplemental register.²⁸ Regardless, federal registration in general is not required by law for holders to acquire rights in their marks.²⁹

2. Fashioning National Trademark Protection Under the Commerce Clause of the Constitution: From Sail-Cloth to the Supreme Court

The Supreme Court recognized the desirability of national protection as

meaning to consumers.”); *see also id.* at 2307 n.6 (“Evidence informing that inquiry can include not only consumer surveys, but also dictionaries, usage by consumers and competitors, and any other source of evidence bearing on how consumers perceive a term’s meaning. Surveys can be helpful evidence of consumer perception but require care in their design and interpretation.”).

25. *Id.* at 2303 (underscoring the “secondary meaning” for principal register eligibility of descriptive marks).

26. 15 U.S.C. § 1072; *see also* PROTECTING YOUR TRADEMARK, *supra* note 18, at 11 (noting use of “®” for registered marks and “TM” for adopted but unregistered marks).

27. 15 U.S.C. § 1057(b) (“A certificate of registration of a mark upon the principal register provided by this chapter shall be prima facie evidence of the validity of the registered mark and of the registration of the mark, of the owner’s ownership of the mark, and of the owner’s exclusive right to use the registered mark in commerce on or in connection with the goods . . . specified in the certificate”); *see also id.* § 1057(c) (“Contingent on the registration of a mark on the principal register provided by this chapter, the filing of the application to register such mark shall constitute constructive use of the mark, conferring a right of priority, nationwide in effect, on or in connection with the goods or services specified in the registration against any other person”).

28. *Id.* § 1091(a). A trademark on the supplemental register “announces one’s use of the designation to others considering a similar mark” and offers the trademark holder protection against trademark infringement under the Lanham Act. *Booking.com B.V.*, 140 S. Ct. at 2302. An arbitrary mark (e.g., “Camel” cigarettes), fanciful mark (e.g., “Kodak” film), or suggestive mark (e.g., “Tide” laundry detergent) may be on the principal register because of their inherent distinctiveness. *Id.*

29. *See* PROTECTING YOUR TRADEMARK, *supra* note 18, at 10–12 (noting that “parties are not required to register their marks to obtain protectable rights” and listing the trademark functions outside the scope of USPTO).

“trademarks foster competition and the maintenance of quality by securing to the producer the benefits of good reputation.”³⁰ Likewise, Congress enacted federal trademark laws to “protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get.”³¹ Yet, formal federal recognition of trademark protection came along decades after its development under state common law.³²

a. Pre-Lanham Act: The Trade-Mark Cases Decision

In 1791, Bostonian sail-cloth maker Samuel Breck petitioned Congress, with Secretary of State Thomas Jefferson ultimately reporting on the matter, to grant him “exclusive privilege of using particular marks for designating the sail-cloth of their manufactory.”³³ Despite such early demand for federal trademark regulation, “Congress did not enact the first federal trademark statute until 1870.”³⁴ Before then, states established their own trademark laws, as early as 1845, to protect the public from fraudulent use of false stamps and

30. *S.F. Arts & Athletics, Inc. v. U.S. Olympic Comm.*, 483 U.S. 522, 531 (1987) (quoting *Park ‘N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 198 (1985)); *see also* S. REP. NO. 79-1333, at 4 (1946), *as reprinted in* 1946 U.S.C.C.A.N. 1274, 1275 (“To protect trade-marks, therefore, is to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and good will by preventing their diversion from those who have created them to those who have not.”).

31. *Booking.com B.V.*, 140 S. Ct. at 2302 (quoting S. REP. NO. 79-1333, at 3 (1946)).

32. *See* Keith M. Stolte, *How Early Did Anglo-American Trademark Law Begin? An Answer to Schechter’s Conundrum*, 8 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 505, 507 (1998) (“History has generally honored *Southern v. How*, decided in 1618, as the first reported trademark case in Anglo-American law—despite the fact it was not a trademark case at all, but one that involved the sale of counterfeit jewels. Its connection with trademark law arose out of Judge Dodderidge’s dictum in that case, wherein the learned judge made a brief reference to an earlier, unnamed and apparently unreported case that involved a suit brought against a cloth maker who used another cloth maker’s mark. That lawsuit—published as *Sandforth’s Case*—may now be declared the earliest reported trademark case in Anglo-American law.”). *See generally* Edward S. Rogers, *Some Historical Matter Concerning Trademarks*, 9 MICH. L. REV. 29, 29–32, 41–42 (1910) (detailing the earliest use of trademarks in the ancient world and demand for protection in the United States).

33. Rogers, *supra* note 32, at 41–42 (providing an excerpt of the December 9, 1791 report by Secretary of State Thomas Jefferson regarding the trademark registration petition).

34. Ethan Horwitz & Benjamin Levi, *Fifty Years of the Lanham Act: A Retrospective of Section 43(a)*, 7 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 59, 60–61 (1996); *see also* Trade-Mark Cases, 100 U.S. 82, 92 (1879) (“The right to adopt and use a symbol or a device to distinguish the goods or property made or sold by the person whose mark it is, to the exclusion of use by all other persons, has been long recognized by the common law and the chancery courts of England and of this country, and by the statutes of some of the States.”).

labels on tobacco, flour, and pork, among other goods, in commerce.³⁵ However, in its 1879 *Trade-Mark Cases* decision, the Supreme Court held the Trade Mark Act of 1870 as unconstitutional.³⁶ Because the Act of 1870 granted broad protection by trademark registration to “[a]ny person or firm domiciled in the United States, and any corporation created by the United States” or any of its states or territories, without regard to actual engagement in commerce, the Court ruled the Act surpassed congressional power under the Commerce Clause in its attempt to regulate trademarks.³⁷

b. The Lanham Act: Establishing Modern Federal Trademark Registration Within Congressional Power to Regulate Commerce

Eventually, Congress passed the Trademark Act of 1946, commonly known as the Lanham Act, in an effort to constitutionally establish and modernize the federal system for trademark registration.³⁸ The Lanham Act drafters intended to regulate commerce within their congressional power, “protect

35. See Rogers, *supra* note 32, at 41–42. Other states also passed laws with the intent to protect the public through mark regulation on goods: “Connecticut in 1847; Pennsylvania, 1847; Massachusetts, 1850; Ohio, 1859; Iowa, 1860; Michigan, 1863; Oregon, 1864; Nevada, 1865; Kansas, 1866; Maine, 1866; Missouri, 1866.” *Id.* at 42.

36. *Trade-Mark Cases*, 100 U.S. at 97. The Supreme Court addressed three cases on appeal—*United States v. Steffens*, *United States v. Wittemann*, and *United States v. Johnson*—in its *Trade-Mark Cases* decision. *Id.* at 82; see also Horwitz & Levi, *supra* note 34, at 61 (“The Court held that Congress had erred by basing the 1870 statute on the Patent and Copyright Clause, because trademarks are materially different from patents and copyrights. The Court stated that Congress could have based the 1870 statute on the Commerce Clause, but had failed to do so.”).

37. *Trade-Mark Cases*, 100 U.S. at 97 (“But no such idea is found or suggested in this statute. Its language is: ‘Any person or firm domiciled in the United States, and any corporation created by the United States, or of any State or Territory thereof,’ or any person residing in a foreign country which by treaty or convention affords similar privileges to our citizens, may [by] registration obtain protection for his trade-mark. Here is no requirement that such person shall be engaged in the kind of commerce which Congress is authorized to regulate.”). The Constitution gives Congress power to regulate interstate commerce. U.S. CONST. art. I, § 8, cl. 3.

38. See 15 U.S.C. § 1051. In passing the Lanham Act, Congress repealed prior trademark acts including: the 1881 Act: “An Act to authorize the registration of trademarks and protect the same;” the 1882 Act: “An Act relating to the registration of trademarks;” the 1905 Act: “An Act to authorize the registration of trademarks used in commerce with foreign nations or among the several States or with Indian tribes, and to protect the same;” and the 1920 Act: “an Act to give effect to certain provisions of the convention for the protection of trademarks and commercial names made and signed in the city of Buenos Aires, in the Argentine Republic, August 20, 1910, and for other purposes.” U.S. PATENT & TRADEMARK OFFICE, U.S. TRADEMARK LAW: FEDERAL STATUTES 44 (2013), https://www.uspto.gov/sites/default/files/trademarks/law/Trademark_Statutes.pdf.

[those] engaged in . . . commerce against unfair competition,” and prevent fraud and deception “by the use of reproductions, copies, counterfeits, or colorable imitations of registered marks,” among other aims.³⁹ Section 43(a)(1)(A) of the Lanham Act governs infringement or unauthorized uses of trademarks and states in relevant part:

*Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which . . . is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, . . . shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.*⁴⁰

B. *Restrictions Under the Lanham Act: The First Sale Doctrine*

Generally, the Lanham Act grants trademark holders the right to control use of their mark.⁴¹ However, the first sale doctrine restricts trademark protection after holders authorize the initial sale of their trademarked product.⁴²

1. Copyright Law First Sale Doctrine: The *Bobbs-Merrill Co. v. Straus* Decision

The Supreme Court first recognized the first sale doctrine within

39. 15 U.S.C. § 1127; see also Horwitz & Levi, *supra* note 34, at 63 (noting the congressional intent behind § 43(a) of the Lanham Act: “[C]omparison of the statutory language of section 43(a) with that of its 1920 predecessor shows that Congress intended to eliminate a showing of willfulness or intent to deceive as a prerequisite for winning a trademark protection action.”).

40. 15 U.S.C. § 1125(a)(1)(A) (emphasis added) (forbidding false designations of origin, false descriptions, and dilution).

41. See *id.*

42. See *Sebastian Int’l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1076 (9th Cir. 1995) (“It is the essence of the ‘first sale’ doctrine that a purchaser who does no more than stock, display, and resell a producer’s product under the producer’s trademark violates no right conferred upon the producer by the Lanham Act. When a purchaser resells a trademarked article under the producer’s trademark, and nothing more, there is no actionable misrepresentation under the statute.”).

copyright law in its 1908 decision *Bobbs-Merrill Co. v. Straus*.⁴³ Legislators subsequently codified the first sale doctrine under copyright law in 17 U.S.C. § 109(a).⁴⁴ The *Bobbs-Merrill Co.* Court affirmed the wholly statutory nature of federal copyright law and recognized the congressional power under Article I, Section Eight, of the Constitution: “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.”⁴⁵ Furthermore, the Court clearly expressed its deference in construing copyright statutes to carry out the intent of Congress by stating: “[Copyright statutes] ought not to be unduly extended by judicial construction to include privileges not intended to be conferred, nor so narrowly construed as to deprive those entitled to their benefit of the rights Congress intended to grant.”⁴⁶ Considering the non-overlapping rights separately afforded by common law and statutory law, the *Bobbs-Merrill Co.* Court ruled “one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it.”⁴⁷

43. 210 U.S. 339, 350–51 (1908). The Court interpreted the copyright statutes as protecting the right of the copyright owner to “sell his production” but not the “right to impose . . . a limitation at which the [copyrighted] book shall be sold at retail by future purchasers, with whom there is no privity of contract.” *Id.* at 350. Furthermore, the Court stated:

To add to the right of exclusive sale the authority to control all future retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of the statute, and, in our view, extend its operation, by construction, beyond its meaning, when interpreted with a view to ascertaining the legislative intent in its enactment.

Id. at 351.

44. 17 U.S.C. § 109(a) (“[T]he owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”).

45. *Bobbs-Merrill Co.*, 210 U.S. at 346 (quoting U.S. CONST. art. I, § 8, cl. 8).

46. *Id.* The Court examined Congress’s purpose and intent in enacting the statutes. *Id.* at 347–48 (“While the nature of the property and the protection intended to be given the inventor or author as the reward of genius or intellect in the production of his book or work of art is to be considered in construing the act of Congress, it is evident that to secure the author the right to multiply copies of his work may be said to have been the main purpose of the copyright statutes Each and all of these statutory rights should be given such protection as the act of Congress requires, in order to secure the rights conferred upon authors and others entitled to the benefit of the act.”).

47. *See id.* at 350. The Court compared statutory and common law copyright protections. *Id.* at 346–47 (“As the law is now expounded, there are important differences between the statutory and the common-law right. The former exists only in works which have been published within the meaning of the statute, and the latter only in works which have not been so published. In the former case, ownership is limited to a term of years; in the latter it is perpetual. The rights do not co-exist in the same composition; when the statutory right begins the common-law right ends. Both may be defeated by publication. Thus, when a work is published in print, the owner’s common-law rights are lost; and,

2. Trademark Law First Sale Doctrine: The *Prestonettes, Inc. v. Coty* Decision

In 1924, the Supreme Court applied the first sale doctrine to trademark law in *Prestonettes, Inc. v. Coty*.⁴⁸ The *Prestonettes* Court found the French perfume and powder trademark holder did not have the “naked right” under trademark law to preclude the American reseller from mentioning its trademark in its product.⁴⁹ In *Prestonettes*, the reseller purchased genuine products from the trademark holder and subsequently rebottled the perfume and compounded the powder for resale with labels reflecting their nature.⁵⁰ Establishing the first sale doctrine under trademark law, the *Prestonettes* Court reasoned: “When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth. It is not taboo.”⁵¹

a. *The First Line of Defense: Authorization of the First Sale by the Trademark Holder*

To assert the first sale doctrine defense, the alleged infringer must demonstrate that the trademark holder authorized the first sale of the allegedly infringing goods.⁵² After authorization of the first sale, the trademark holder no

unless the publication be in accordance with the requirements of the statute, the statutory right is not secured.”).

48. 264 U.S. 359, 369 (1924) (“The question therefore . . . is whether the plaintiff has the naked right alleged to prohibit the defendant from making even a collateral reference to the plaintiff’s mark.”).

49. *Id.* at 369 (holding plaintiff did not have “naked right” to prevent all references, even collateral ones, to plaintiff’s mark).

50. *Id.* at 366–67. Before the suit, the district court decree allowed the reseller to affix the following label on its rebottled perfume: “Prestonettes, Inc., not connected with Coty, states that the contents are Coty’s (giving the name of the article) independently rebottled in New York” with every word in like distinctiveness. *Id.* at 367.

51. *Id.* at 368–69 (“[W]e see no reason why [the trademarked name] should not be used collaterally, not to indicate the goods, but to say that the trade-marked product is a constituent in the article now offered as new and changed.”). The Court acknowledged the risk present to the holder in allowing such trademark use by resellers, but dismissed the merit of any such argument under trademark law in stating: “If the compound was worse than the constituent, it might be a misfortune to the plaintiff, but the plaintiff would have no cause of action, as the defendant was exercising the rights of ownership and only telling the truth.” *Id.* at 368.

52. *See* *Sebastian Int’l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1076 (9th Cir. 1995) (“When a purchaser resells a trademarked article under the producer’s trademark, and nothing more, there is no actionable misrepresentation under the statute.”).

longer holds the right to prohibit subsequent sales of the good.⁵³ In *Sebastian International, Inc. v. Longs Drug Stores Corp.*, the Ninth Circuit acknowledged “the ‘first sale’ rule provides a sensible and stable accommodation between strong and potentially conflicting forces.”⁵⁴ In general, the first sale doctrine “serves the legitimate purposes of trademark law” in guaranteeing identification of goods and their sources—the trademark holder benefits from the goodwill generated from the quality of its goods, and consumers receive goods in conformity with their expectations in purchasing genuine goods by the trademark holder.⁵⁵ Additionally, the *Sebastian International* court noted the first sale doctrine “preserves an area for competition” in commerce by limiting the right of the trademark holder to control its trademarked goods past the first authorized sale.⁵⁶

The Second Circuit delineated the authorization requirement of the first sale doctrine by extending liability for trademark infringement, based on lack of consent from the trademark holder, to sellers unaware of the infringing nature of their goods.⁵⁷ In *El Greco Leather Products Co. v. Shoe World, Inc.*, defendant shoe seller purchased heavily discounted trademarked goods originally manufactured by the shoe factory for the contracted order later cancelled by plaintiff trademark holder.⁵⁸ The *El Greco* court ruled:

53. *Id.* at 1074–75 (“Beginning with *Prestonettes, Inc.* . . . , courts have consistently held that, with certain well-defined exceptions, the right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product. Resale by the first purchaser of the original article under the producer’s trademark is neither trademark infringement nor unfair competition Nothing in the language or legislative history of the Lanham Act suggests that, by authorizing the registration of marks identifying membership in a lodge, political party, club, or other collective organization, Congress intended to provide producers with a simple and fail-safe method to control the channels of distribution of trademarked products”).

54. *Id.* at 1075 (“The ‘first sale’ doctrine has proven to be a reliable and useful guide in an area in which a high volume of business-driven litigation must be expected.”).

55. *Id.*; see also *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 782 n.15 (1992) (Stevens, J., concurring) (quoting S. REP. NO. 79-1333, at 3 (1946)) (“The purpose underlying any trade-mark statute is twofold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats. This is the well-established rule of law protecting both the public and the trade-mark owner.”).

56. *Sebastian Int’l*, 53 F.3d at 1075; see also S. REP. NO. 79-1333, at 3 (1946) (noting “[t]rademarks are not monopolistic grants like patents and copyrights”).

57. See *El Greco Leather Prods. Co. v. Shoe World, Inc.*, 806 F.2d 392, 396 (2d Cir. 1986) (“El Greco is entitled to relief under this provision. The shoes sold by Shoe World were not genuine CANDIE’S shoes, and El Greco never gave its consent to the use of the mark on those shoes.”).

58. *Id.* at 393–94 (“Despite the cancellation, the shoes that were to be shipped as lots F and G were

Even though [the defendant] was involved neither in the manufacture nor the affixing of the [plaintiff's] trademark to the [infringing good], its sale of the [infringing good] was sufficient "use" for it to be liable for the results of such infringement and its claimed lack of knowledge of its supplier's infringement, even if true, provides no defense.⁵⁹

b. Holding the Line: Exceptions to the First Sale Doctrine

When an alleged infringer asserts the defense of the first sale doctrine, the trademark holder may, in turn, argue that an exception to the doctrine applies.⁶⁰ In such exceptions, the goods resold by the defendant must consequently be considered non-genuine, and the defendant is liable for trademark infringement.⁶¹ Common exceptions to the first sale doctrine include the material difference exception and the quality control exception.⁶²

i. The Material Difference Exception: To Purchase or Not to Purchase—That Is the Question of Materiality

In *Beltronics USA, Inc. v. Midwest Inventory Distribution, LLC*, the Tenth Circuit recognized warranty protections and service commitments as non-physical characteristics that may give rise to the material difference exception

apparently manufactured by Solemio. The district court found that they had in fact been completed, at least in substantial part, at the time El Greco cancelled its order, and that El Greco did not specifically instruct Solemio on how to dispose of the shoes. Solemio then sold the shoes, through an intermediary, to defendant Shoe World, Inc. All told, Shoe World purchased just over 7000 pairs bearing the CANDIE'S trademark at \$4.00 per pair, F.O.B. Brazil, or \$3.10 less than the original price paid by El Greco. Shoe World resold the CANDIE'S shoes for \$13.88 per pair, the uniform price it charged for all shoes sold in its retail stores.").

59. *Id.* at 396 ("El Greco is entitled to relief under this provision. The shoes sold by Shoe World were not genuine CANDIE'S shoes, and El Greco never gave its consent to the use of the mark on those shoes.").

60. See discussion *infra* Section II.B.2.b.

61. See discussion *infra* Section II.B.2.b (detailing the development of the material difference and quality control exceptions to the first sale doctrine in case law); see also *Davidoff & CIE, S.A. v. PLD Int'l Corp.*, 263 F.3d 1297, 1301–02 (11th Cir. 2001) ("Under what has sometimes been called the 'first sale' or 'exhaustion' doctrine, the trademark protections of the Lanham Act are exhausted after the trademark owner's first authorized sale of that product. Therefore, even though a subsequent sale is without a trademark owner's consent, the resale of a genuine good does not violate the Act.") (citations omitted).

62. See cases cited *infra* Sections II.B.2.b.i–II.B.2.b.ii (illustrating applications of the material difference and quality control exceptions to the first sale doctrine in the Second, Third, and Tenth Circuits).

to the first sale doctrine.⁶³ The *Beltronics* court reasoned that reselling trademarked goods without their associated nonphysical characteristics may mislead consumers and harm the goodwill of the trademark holder, thereby constituting trademark infringement.⁶⁴ By reselling trademarked goods without their original serial labels, the consumer electronics reseller in *Beltronics* did “more than stock, display, and resell” under the first sale doctrine and consequently violated the rights of the trademark holder under the Lanham Act.⁶⁵

In *Iberia Foods Corp. v. Romeo*, the Third Circuit explained that the material difference exception to the first sale doctrine applies where consumer confusion as to the quality and nature of trademarked goods may be caused by material differences between products sold by the alleged infringer and the trademark holder using identical marks.⁶⁶ A difference is deemed “material” if consumers would consider the difference relevant to their purchasing decision.⁶⁷ Courts consider the question of materiality on a case-by-case basis and examine both the products and markets at issue.⁶⁸ Since many factors

63. 562 F.3d 1067, 1074 (10th Cir. 2009) (“The Lanham Act does not proscribe material differences per se; it proscribes sales and offers for sale that are ‘likely to cause confusion, or to cause mistake, or to deceive.’ So long as resellers of materially different products take the necessary steps to adequately alleviate this confusion and prevent injury to the trademark’s goodwill—by, for example, sufficiently disclosing that the product differs from the originally sold product—those differences will be unlikely to trigger the liability [the defendant] envisions.”); *see also* 15 U.S.C. § 1114(1)(a)–(b).

64. *Beltronics USA, Inc.*, 562 F.3d at 1073. “A materially different product is not genuine and may generate consumer confusion about the source and the quality of the trademarked product.” *Id.* at 1072.

65. *Id.* (quoting *Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1241 (10th Cir. 2006)). Only purchasers of the trademarked products bearing an original serial label were eligible to receive “certain products and services, including software upgrades, rebates, product use information, service assistance, warranties, and recalls,” from the trademark holder. *Id.* at 1069.

66. 150 F.3d 298, 302–03 (3d Cir. 1998) (“As a matter of doctrine, a trademark owner attempting to use § 32 to prevent an infringement must establish that the products sold by the alleged infringer are not ‘genuine.’ The test for whether an alleged infringer’s products are genuine asks whether there are ‘material differences’ between the products sold by the trademark owner and those sold by the alleged infringer. If there are no material differences between the products sold, then the products offered by the alleged infringer are ‘genuine’ and an infringement action under § 32 of the Lanham Act must fail. Whether differences are material so that an alleged infringer’s products are nongenuine is a matter of law that we review de novo.”) (citations omitted).

67. *Id.* at 303; *see also* *Davidoff & CIE, S.A. v. PLD Int’l Corp.*, 263 F.3d 1297, 1302 (11th Cir. 2001) (“Not just any difference will cause consumer confusion. A material difference is one that consumers consider relevant to a decision about whether to purchase a product.”).

68. *Brilliance Audio, Inc. v. Haight Cross Commc’ns, Inc.*, 474 F.3d 365, 370 (6th Cir. 2007); *see, e.g., Davidoff & CIE, S.A.*, 263 F.3d at 1302–03 (“The district court found that etching the glass to remove the batch code degrades the appearance of the product and creates a likelihood of confusion.

influence consumer purchasing decisions, the threshold for showing materiality is low.⁶⁹ Such a low threshold allows courts to consider even the most subtle differences when evaluating whether dissimilarities between trademarked goods and goods sold by the alleged infringer rise to the level of material.⁷⁰

As the *Iberia Foods* court noted, material differences likely affect consumer perception of the desirability of the trademarked goods.⁷¹ Sales of goods by the alleged infringer consequently tarnish the “commercial magnetism” of the trademark to the detriment of the trademark holder.⁷² In contrast, minimal differences between trademarked and allegedly infringing goods likely do not affect consumer perception where the authentic trademark accurately indicates the nature and quality of the goods sold by the alleged infringer.⁷³ Although the trademark holder may suffer economic harm from the sales of goods by the alleged infringer, the *Iberia Foods* court noted that such injury does not afford the trademark holder any remedy under the Lanham Act.⁷⁴

Furthermore, the Third Circuit in *Iberia Foods* considered “rigorous quality control and inspection procedure” as one potential basis for finding material differences between the allegedly infringing products and the trademarked

In addition, the court credited testimony of the marketing vice-president that the etching may make a consumer think that the product had been harmed or tampered with. We defer to the district court’s finding that the etching degrades the appearance of the bottle.”)

69. *Beltronics USA, Inc.*, 562 F.3d at 1073; see also *Iberia Foods Corp.*, 150 F.3d at 304 (“Any differences that are likely to damage the goodwill developed by the trademark owner can be deemed material.”).

70. See *Davidoff & CIE, S.A.*, 263 F.3d at 1302; see also *Iberia Foods Corp.*, 150 F.3d at 304 (“Because consumer preferences are as fickle and diverse as the human imagination, it is impossible to devise an exhaustive list of the types of differences between products that can be considered material for the purposes of the genuineness test.”).

71. *Iberia Foods Corp.*, 150 F.3d at 303 (“Characteristics of the alleged infringer’s goods that are not shared by the trademark owner’s goods are likely to affect consumers’ perceptions of the desirability of the owner’s goods.”).

72. *Id.*

73. *Id.* (“Although consumers may be unaware of the precise avenues that a given product has traveled on its way to the supermarket shelf, the authentic trademark on the alleged infringer’s goods is an accurate indicator of their nature and quality.”).

74. *Id.* at 303–04; see also *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659, 671 (3d Cir. 1989) (“In the light of these precedents, we look first to the plain language of the statute, which [sic] we do not find to be ambiguous. In our view, the language of these sections reflects Congress’ intent to provide a remedy only to the domestic trademark holder who is injured by the distribution of *like* goods, which bear facsimile marks, that result in confusion to consumers or detriment to the goodwill developed by the trademark holder in the trademarked goods.”).

goods.⁷⁵ The *Iberia Foods* court phrased the issue of materiality as “whether the quality control procedures established by the trademark owner are likely to result in differences between the products such that consumer confusion regarding the sponsorship of the products could injure the trademark owner’s goodwill.”⁷⁶ In *Iberia Foods*, the Third Circuit found the quality inspection of “weeding out” “self-evident” defects by the trademark holder itself was not materially different from the lack of quality control measures by the reseller, and thus ruled the limited inspection by the trademark holder did not constitute a “material difference” between the infringing and the trademarked goods.⁷⁷

ii. The Quality Control Exception: Established, Legitimate, Substantial, and Non-Pretextual

In *Zino Davidoff SA v. CVS Corp.*, the Second Circuit determined the unique production code (UPC) attached to each trademarked product acted as an “established, legitimate, substantial, and non-pretextual” quality control measure imposed by plaintiff cologne trademark holder.⁷⁸ Consequently, the *Zino Davidoff* court found removal of the UPCs by the retail drugstore reseller likely constituted trademark infringement under the quality control exception to the first sale doctrine.⁷⁹ The Second Circuit reasoned that interference with

75. *Iberia Foods Corp.*, 150 F.3d at 304 (“Because quality control measures may create subtle differences in quality that are difficult to measure but important to consumers, courts do not require trademark owners to show that the actual quality of the inspected goods is measurably higher than that of the uninspected goods.”).

76. *Id.* at 304–05 (“By limiting its inspection to ‘self-evident’ defects, Iberia does no more than weed out those bottles of *Mistolin* that are entirely unsalable on the open market. This ‘weeding out’ is insufficient because bottles so obviously defective as to be unmarketable are not likely to reach consumers in any event.”).

77. *Id.* at 305 (“We conclude that [the trademark holder’s] quality inspections are insufficient to create a material difference between the inspected [trademarked goods] sold by [the trademark holder] and the uninspected [allegedly infringing goods] sold by the [reseller]. . . . Because unmarketable [trademarked] products will not generally reach consumers regardless of whether [the trademark holder] catches the defects first, [the trademark holder’s] limited inspection is insufficient to create a material difference between the [trademarked goods] offered to consumers through [the trademark holder] and that offered to consumers through [the reseller].”).

78. 571 F.3d 238, 244 (2d Cir. 2009).

79. *Id.* at 244, 246. Trademark holder Davidoff attached the UPC to each of its trademarked goods as part of its quality assurance and anti-counterfeiting program where each code was unique to each unit. *Id.* at 240. Information embedded in the UPC included “the time and place of production, the production line, [and] the ingredients” of the particular unit. *Id.* The *Zino Davidoff* court explained

the quality control measures exposed the trademark holder to an increased risk of reputational harm regardless of the actual quality of the goods sold by the alleged infringer because “experience has taught the consumer [that a mark] represents an assurance of high quality.”⁸⁰

The *Zino Davidoff* court acknowledged that consumers willingly pay more for higher-quality goods as signaled by the reputation of their marks: “In attaching its mark to its goods over time, a holder assures consumers that the goods conform to the mark holder’s quality standards. Reputation for quality, whether good or bad, becomes associated with a mark in the minds of consumers.”⁸¹ Moreover, the Second Circuit underscored the significant impact of the UPC quality control measure imposed by the plaintiff trademark holder in “fighting counterfeits” and recognized retailers and U.S. Customs and Border Protection officers as “recipients of these benefits” in addition to the consumers and the trademark holder.⁸²

III. SEPARATING THE HAVES FROM THE HAVE-NOTS: LUXURY TRADEMARK LITIGATION

A. *Keeping It in the Maisons: The Lucrative Business of Savoir Faire*

Luxury royals Moët Hennessy Louis Vuitton (LVMH), Richemont, Kering, and Chanel represent the upper echelon of their industry with the four highest market capitalization values.⁸³ Except for the privately-owned Chanel

the importance of the UPC where counterfeiters either omit the UPC completely on their packaging or repeatedly use fake UPC numbers thereby simplifying identification of counterfeits. *Id.*

80. *Id.* at 244.

81. *Id.* at 243–44. Additionally, the Second Circuit recognized that “identifying information” for each genuine good within the UPC system enhances the ability of the plaintiff trademark holder to “protect its brand against quality slippage in genuine authorized products.” *Id.* at 240–41. Specifically, the *Zino Davidoff* court stated:

When a quality problem surfaces, the UPC identifies the place of manufacture, the batch which produced the defect, and other identifying information. This information helps Davidoff both to recall already distributed product that may share the defect and to prevent further recurrence of the defect. The ability derived from the use of the UPC helps Davidoff assure that its marks will not appear on defective product and thus preserve and protect the value of its trademarks.

Id.

82. *Id.* at 240 (“Armed with this knowledge [of the UPC system and known fake UPC numbers], Customs and retailers are more easily able to check newly-received [trademarked goods] shipments and set aside suspected counterfeits.”).

83. See Tugba Sabanoglu, *Leading Global Luxury Companies Based On Revenue 2021*, STATISTA

company, the luxury leaders hold top-tier brands in their portfolios.⁸⁴ LVMH houses seventy-five maisons with Louis Vuitton, Christian Dior, Givenchy, and Celine among the most notable.⁸⁵ Richemont houses twenty-seven maisons including Cartier, Montblanc, Piaget, and Van Cleef & Arpels.⁸⁶ Kering holds ten houses with Gucci, Saint Laurent, Balenciaga, and Alexander McQueen among the select few.⁸⁷

Since the COVID-19 pandemic, luxury e-commerce has experienced significant growth, increasing by 40.4% in 2020 and by 50.0% in 2021.⁸⁸ In 2022, total United States luxury retail sales was expected to reach \$109.2 billion with 22.7% of such sales coming from e-commerce.⁸⁹ However, luxury brands still face the problem of the ever-growing counterfeit market.⁹⁰ Annually, around 60% of the \$4.5 trillion total fake goods trade is counterfeit luxury merchandise, and around 25% of the estimated \$1.2 trillion total luxury goods trade is fake.⁹¹ To protect their goodwill, luxury brands invest millions of dollars annually in their anti-counterfeiting efforts.⁹² For example, LVMH

(Nov. 1, 2021), <https://www.statista.com/statistics/455299/leading-global-luxury-companies-based-on-revenue/#statisticContainer>.

84. See sources cited *infra* notes 85–87; *Chanel*, FORBES, <https://www.forbes.com/companies/chanel/?sh=79ccaba11ca2> (last visited Oct. 8, 2023) (noting that Chanel is owned by the family of an early business partner of Coco Chanel).

85. *Fashion & Leather Goods*, LVMH, <https://www.lvmh.com/houses/fashion-leather-goods/> (last visited Oct. 8, 2023). See generally MARKETLINE, COMPANY PROFILE: LVMH MOET HENNESSY LOUIS VUITTON SA 3 (2023) (providing a company overview for LVMH).

86. *Our Maisons*, RICHEMONT, <https://www.richemont.com/en/home/our-maisons/> (last visited Oct. 8, 2023). See generally MARKETLINE, COMPANY PROFILE: COMPAGNIE FINANCIERE RICHEMONT SA 3 (2023) (providing a company overview for Richemont).

87. *Our Houses*, KERING, <https://www.kering.com/en/talent/who-we-are/our-houses/> (last visited Oct. 8, 2023). See generally MARKETLINE, COMPANY PROFILE: KERING S.A. 3 (2022) (providing a company overview for Kering).

88. See SKY CANAVES, LUXURY GOODS 2022: HOW HIGH-END BRANDS IN THE US AND CHINA WILL WEATHER THE ERA OF UNCERTAINTY 5 (2022). “Consumers . . . have grown more comfortable purchasing a range of big-ticket items . . . through digital channels.” *Id.* at 7.

89. *Id.* at 2.

90. See Baumgarten, *supra* note 4, at 133 (“Counterfeit good sales accounted for 40% of all e-commerce transactions in 2019 and grew from \$5.5 billion dollars in 1982 to \$200 billion by 1996.”). See generally *LVMH Recognized for Its Efforts in the Fight Against Counterfeiting on World Anti-Counterfeiting Day*, LVMH (June 6, 2019), <https://www.lvmh.com/news-documents/press-releases/lvmh-recognized-for-its-efforts-in-the-fight-against-counterfeiting-on-world-anti-counterfeiting-day/> (highlighting LVMH’s work to combat counterfeiting).

91. Roberto Fontana et al., *How Luxury Brands Can Beat Counterfeiters*, HARV. BUS. REV. (May 24, 2019), <https://hbr.org/2019/05/how-luxury-brands-can-beat-counterfeiters>.

92. See *The Counterfeit Report: The Big Business of Fakes*, FASHION LAW (Oct. 11, 2019), <https://www.thefashionlaw.com/the-counterfeit-report-the-impact-on-the-fashion-industry/>

“employs at least 60 lawyers and spends \$17 million annually” on legal action against counterfeiting.⁹³ With the rise of resale, luxury brands experience an even greater challenge detecting counterfeit luxury goods.⁹⁴

1. The Luxury Resellers: Champions of the Circular Economy

The increasing influence of Millennial and Generation Z consumers in the luxury market incentivizes brands to prioritize sustainability in their operations.⁹⁵ In one survey conducted by consulting firm McKinsey & Company in 2020, “around 66% of the total respondents and 75% of the millennial respondents” consider sustainability before making their luxury purchases.⁹⁶ In another study by data analytics company Nielsen, 73% of millennial respondents indicated their willingness to purchase products from sustainable or socially-conscious brands, even if these products are more expensive.⁹⁷

Luxury consignment platforms capitalizing on sustainability trends with circular business models have sparked significant growth and consumer support in resale.⁹⁸ In 2020, experts valued the luxury resale market between \$25 and \$30 billion and expected an annual growth rate between 10% and 15%

[hereinafter *The Counterfeit Report*].

93. Fontana et al., *supra* note 91.

94. See generally *The Counterfeit Report*, *supra* note 92 (“[T]he market for counterfeit clothing, textiles, footwear, handbags, cosmetics, and watches, alone, amounted to a whopping \$450 billion—and growing—as of 2017, . . . with brands like Chanel, Louis Vuitton, Prada, Hermes, Gucci and Dior routinely among some of the most heavily targeted by counterfeit makers, an enduring trend that has been furthered as more consumers move online to make purchases of luxury goods (despite many brands dragging their feet to this day when it comes to offering up their wares via e-commerce sites), and counterfeiting technology advances, making [it] increasingly easy for consumers to acquire sophisticated and high-quality counterfeits with the simple click of a mouse or mobile button.”).

95. See generally LEONIE SENN-KALB & DEV MEHTA, LUXURY GOODS—IN-DEPTH MARKET ANALYSIS 43 (2023) (“In July 2017, BSR, a global non-profit organization, hosted a conference consisting of a group of luxury brands to discuss the current state of sustainability in the luxury market. The brands reported that luxury customers were now starting to focus more on topics such as the origin of ingredients and raw materials, animal welfare, and social and environmental impacts of products.”).

96. *Id.* (“Luxury brands have responded to this changing mindset by adopting stronger environmental and social practices. One such example is jewelry company Tiffany, which came under fire for purchasing conflict diamonds from Africa. In order to change public perception, the company now not only has a zero-tolerance policy for such diamonds but also actively supports the elimination of coral from its jewelry while working to protect special places such as Bristol Bay in Alaska.”).

97. *Id.* at 43 n.1.

98. See Miriam Lobis et al., *The Future of Sustainable Fashion*, MCKINSEY & CO. (Dec. 14, 2020), <https://www.mckinsey.com/Industries/Retail/Our-Insights/The-future-of-sustainable-fashion> (discussing the role of sustainable fashion in the near future).

into 2030.⁹⁹ Luxury fashion designer Stella McCartney echoed the trend towards sustainability among consumers of the industry, stating: “Our customers are very conscious of the importance of sustainability, and unlike many people, they can afford to choose products that, while perhaps initially more expensive, will last for years.”¹⁰⁰ Broadening the trend implications to consumers in general, McCartney further noted: “Increasingly, all consumers are aware of the impact on the environment of the production of fashion and are concerned. The younger the customer, the more this is a consideration for them.”¹⁰¹ Thus, as younger consumers continue to consider their luxury purchases as representations of their increasing education levels and cultural awareness, resale marketplaces such as The RealReal (TRR) and Vestiaire Collective (Vestiaire) allow those consumers to participate in the circular economy by buying and selling secondhand luxury goods.¹⁰²

a. Looking for the Real Thing: The RealReal, Inc.

The RealReal, Inc. (TRR) is an online luxury consignment marketplace founded in 2011 by Julie Wainwright.¹⁰³ More than 30 million global members engage in the “circular economy” by buying and selling used luxury goods on TRR.¹⁰⁴ Primary TRR retail stores are located in Los Angeles, San

99. SENN-KALB & MEHTA, *supra* note 95, at 76.

100. *Id.* at 44.

101. *Id.*

102. See discussion *infra* Section III.A.1.a. Vestiaire Collective CEO Sébastien Fabre described resale as “entry-level access” for younger consumers unable to afford the full price of luxury, and Tradesy CEO Tracy DiNunzio similarly opined “the resale market leads to customers making more purchases at retail” based on the rationale that future opportunity to resell generates more willingness in the consumer to pay more for goods. See *The Rocky Relationship Between Luxury Resale and (Some) Luxury Brands*, FASHION L. (Dec. 19, 2018), <https://www.thefashionlaw.com/relationship-between-luxury-re-sale-luxury-brands-is-rocky/>; Hilary Milnes, *The Tricky Relationship Between Luxury and Resale*, RETAILING MGMT. (July 25, 2016), <https://www.theretailingmanagement.com/?p=1270>; see also Kali Hays, *The RealReal Sees Conversations with Luxury Players Improving*, WOMEN’S WEAR DAILY (Nov. 26, 2019, 12:01 AM), <https://wwd.com/feature/the-real-real-conversations-luxury-brands-wwd-la-digital-summit-1203369753/>.

103. See Hilary Reid, *The RealReal’s Radical Vision of Secondhand Luxury*, NEW YORKER (May 14, 2018), <https://www.newyorker.com/culture/on-and-off-the-avenue/the-realreals-radical-vision-of-secondhand-luxury>. Wainwright resigned as CEO and Board Chair of TRR in June of 2022. Charity L. Scott, *The RealReal Founder Julie Wainwright Resigns as CEO, Board Chair*, WALL ST. J., <https://www.wsj.com/articles/the-realreal-founder-julie-wainwright-resigns-as-ceo-board-chair-11654610306> (last updated June 7, 2022, 10:18 AM).

104. *Social Impact*, REALREAL, <https://investor.therealreal.com/social-impact> (last visited Oct. 11, 2023); see also Rachel Wolff, *Shoppers See Resale as an Opportunity to Save—And Make—Money*,

Francisco, New York City, and Chicago.¹⁰⁵ TRR aims “to empower consignors and buyers to extend the life cycle of luxury goods in a way that honors luxury brands.”¹⁰⁶ In pursuit of its mission, TRR has kept more than 34 million luxury items in circulation.¹⁰⁷

As part of its effort to “chang[e] the luxury industry’s viewpoint on secondhand and rais[e] awareness of the importance of resale,” TRR has formed first resale partnerships with major luxury brands, including Gucci, Burberry, and Stella McCartney.¹⁰⁸ Most recently, in October 2022, TRR announced its circular partnership with Jimmy Choo, wherein the global luxury accessories brand has begun offering their clients an opportunity to “consign their pre-loved luxury items through [TRR].”¹⁰⁹ Additionally, the sustainability initiative between TRR and Gucci to plant one tree for each Gucci purchase or consignment marks the first brand partnership to include an incentive for consumers to purchase resale.¹¹⁰

In November of 2019, then-CEO Julie Wainwright addressed consumer concern over the mistaken sales of counterfeit luxury goods on its site by detailing the “rigorous, brand-specific” TRR authentication process in a press

INSIDER INTELLIGENCE (Sept. 26, 2022), <https://content-na1.emarketer.com/shoppers-see-resale-opportunity-save-and-make-money> (“The RealReal said the number of items resold after being purchased on the site has more than doubled since the start of the pandemic, in a sign that ‘shopping to sell’ has become a popular side hustle for a growing subset of resale shoppers.”).

105. The RealReal, Inc., Annual Report (Form 10-K) 29 (Feb. 28, 2023).

106. *Investor FAQs*, REALREAL, <https://investor.therealreal.com/resources/investor-faqs> (last visited Oct. 11, 2023).

107. *Social Impact*, *supra* note 104 (“From inception through June 30, 2023, consignment through The RealReal has kept 34.3+ million luxury items in circulation, while saving 3.9 billion liters of water and 73,207 metric tons of carbon.”).

108. *Id.* TRR drove an increase of 65% in customers selling Stella McCartney items within one year of its partnership with the luxury brand. *Id.*

109. Press Release, The RealReal, The RealReal Announces a Circular Partnership with Jimmy Choo on National Consignment Day (Oct. 3, 2022), <https://investor.therealreal.com/news-releases/news-release-details/realreal-announces-circular-partnership-jimmy-choo-national>. Statement from Jimmy Choo CEO Hannah Colman:

Our partnership with The RealReal reinforces our commitment to the circular economy in addition to our established repair service. The partnership allows us to champion resale by offering our clients an opportunity to give their luxury items a second life. This partnership ties back to the goals we are committed to in our sustainability manifesto.

Id.

110. 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>. The TRR–Gucci initiative is also in collaboration with nonprofit organization, One Tree Planted. *Id.*

release.¹¹¹ As the first step of its authentication process, TRR identifies the risk level of the luxury item it receives as “high” or “low” depending on the brand, value, and style of the item, among other indicators.¹¹² Afterward, TRR authenticators, many of whom come from luxury brands and auction houses like Sotheby’s, assess the “high risk” luxury items.¹¹³ Meanwhile, TRR copywriters assess the “low risk” luxury items which include “contemporary brands with clear authenticity markers.”¹¹⁴ At the end of its authentication process, the TRR Quality Control team “pull[s] certain at-risk items for further review” before posting those luxury items on the TRR site.¹¹⁵

b. Changing Times Call for Changing Rooms: Vestiaire Collective

Similar to TRR, French luxury reseller Vestiaire Collective (Vestiaire)¹¹⁶ “encourages consumers to consider resale as a smart and sustainable approach to fashion.”¹¹⁷ From its founding in 2009, the French company has expanded to become the first B-Corp certified fashion resale platform with more than 7 million global members that list more than 25,000 items weekly.¹¹⁸ In March of 2021, Kering acquired a 5% stake in Vestiaire to back up the new \$216 million financing round, along with Tiger Global Management.¹¹⁹ More

111. Press Release, The RealReal, The RealReal Sets the Record Straight on Its Authentication Process (Nov. 12, 2019), <https://investor.therealreal.com/news-releases/news-release-details/realreal-sets-record-straight-its-authentication-process>.

112. *Id.*

113. *Id.*

114. *Id.*

115. *Id.*

116. See *Vestiaire*, CAMBRIDGE DICTIONARY, <https://dictionary.cambridge.org/us/dictionary/french-english/vestiaire> (last visited Oct. 11, 2023) (translating “vestiaire” in French to: “changing room [noun] (British) a room where people can change their clothes before and after playing a sport; locker room (American)”).

117. Isobella Wolfe, *32 Brands to Shop Pre-Owned from Vestiaire Collective*, GOOD ON YOU (Feb. 18, 2021), <https://goodonyou.eco/shop-vestiaire-collective-pre-owned-brands/>.

118. *Vestiaire Collective*, VINTAGE INFO. (Mar. 27, 2021), <https://www.vintageinformation.com/post/vestiaire-collective>. See generally *About B Corp Certification: Measuring a Company’s Entire Social and Environmental Impact*, B LAB, <https://www.bcorporation.net/en-us/certification> (last updated Oct. 6, 2023) (“B Corp Certification is a designation that a business is meeting high standards of verified performance, accountability, and transparency on factors from employee benefits and charitable giving to supply chain practices and input materials.”).

119. *Vestiaire Collective Announces a New €178m (US \$216m) Financing Round Backed by Kering and Tiger Global Management to Accelerate Its Growth in the Second-Hand Market and Drive Change for a More Sustainable Fashion Industry*, KERING (Mar. 1, 2021), <https://www.kering.com/en/news/vestiaire-collective-announces-a-new-eur178m-us-216m-financing-round-backed->

recently, in November of 2022, Vestiaire announced its ban on selling fast fashion brands from its platform.¹²⁰ In line with the mission of Vestiaire to “fight fashion waste,”¹²¹ Chief Impact Officer Dounia Wone stated: “We’ve taken this step because we don’t want to be complicit in this industry which has a tremendous environmental and social impact. The current system encourages overproduction and overconsumption of low-quality items and generates huge amounts of fashion waste.”¹²²

B. Who Wore It First?: Chanel, Inc. v. RealReal, Inc.

On March 30, 2020, the District Court for the Southern District of New York ruled on a motion to dismiss the first amended complaint of Plaintiff Chanel, Inc. (Chanel) against Defendant The RealReal, Inc. (TRR).¹²³ In its decision, the district court dismissed Chanel’s trademark infringement claim under 15 U.S.C. § 1114(1)(a) “based on [TRR’s] use of genuine Chanel Trademarks.”¹²⁴ However, the district court acknowledged sufficient facts for Chanel to plausibly allege trademark infringement under the same statute “based on [TRR’s] advertisement and sale of counterfeit Chanel products.”¹²⁵

During its own investigation in 2018, Chanel discovered that TRR advertised at least seven counterfeit Chanel handbags as genuine and authentic in its Chanel product offerings, despite their difference in quality compared to genuine Chanel products and their false “cartes d’authenticité” with serial numbers inconsistent with the genuine serial numbers Chanel designates for

by-kering-and-tiger-global-management-to-accelerate-its-growth-in-the-second-hand-market-and-drive-change-for-a-more-sustainable-fashion-industry (“By investing in Vestiaire Collective (c. 5% stake) and by being represented at the Vestiaire Collective Board of Directors, global Luxury Group Kering illustrates its pioneering strategy, supporting innovative business models, embracing new market trends and exploring new services to fashion and luxury customers.”).

120. *Our Fight Against Fast Fashion*, VESTIAIRE COLLECTIVE, <https://us.vestiairecollective.com/journal/our-fight-against-fast-fashion/> (last visited Oct. 11, 2023); see also Kaley Roshitsh, ‘Fast Fashion Has No Value,’ Says Vestiaire Collective, WOMEN’S WEAR DAILY (Nov. 22, 2022, 5:00 AM), <https://wwd.com/sustainability/business/fast-fashion-ban-vestiaire-collective-resale-shein-asos-boohoo-1235426402/>.

121. *Our Fight Against Fast Fashion*, *supra* note 120.

122. Roshitsh, *supra* note 120.

123. Chanel, Inc. v. The RealReal, Inc., 449 F. Supp. 3d 422, 428–29 (S.D.N.Y. 2020). See generally Alexandra Jacobs, *Tycoon of the Pre-Owned*, N.Y. TIMES (Jan. 23, 2019), <https://www.nytimes.com/2019/01/23/style/the-real-real.html> (discussing TRR’s secondary market for luxury retail and noting Chanel’s pending lawsuit).

124. *Chanel, Inc.*, 449 F. Supp. 3d at 438.

125. *Id.*

particular handbag styles.¹²⁶ After Chanel first informed TRR of the counterfeit issue in June 2018, TRR “removed the identifying serial numbers from all of its Chanel-branded leather goods product listings and [TRR] also possibly removed physical serial number tags from Chanel handbags sold to customers.”¹²⁷ Additionally, two TRR customers complained about being sold counterfeit Chanel handbags in their reviews.¹²⁸ Thus, while TRR presented itself as “the only resale company in the world that authenticates every single item sold” with “the most rigorous authentication process in the marketplace,” Chanel argued in its complaint that TRR authentication experts simply “do not have the necessary qualifications to authenticate Chanel products.”¹²⁹

At the heart of its argument, Chanel asserted: “Only Chanel itself can know what is genuine Chanel.”¹³⁰ In its first amended complaint, Chanel demonstrated its level of intentionality in maintaining its brand prestige.¹³¹ First, Chanel only authorizes “its own retail stores and carefully select[s] high-end, prestigious specialty stores, such as Neiman Marcus, Barney’s, Nordstrom and Saks Fifth Avenue” to sell certain Chanel products, including its trademarked handbags.¹³² Furthermore, Chanel only authorizes its own website, www.chanel.com, and “a limited number of prestigious retailers’ specialty stores and websites” to sell its trademarked fragrance, cosmetics, and sunglasses.¹³³ Most importantly, even as the trademark holder itself, “Chanel does not sell secondhand or vintage Chanel goods.”¹³⁴

In its decision, the district court recognized Chanel neither sold nor authorized “sales of its products through [TRR], and [did] not authenticate [TRR]’s inventory of Chanel-branded products.”¹³⁵ Yet, the court highlighted that TRR values “authenticity [as] the cornerstone” of its business model and brand, evidenced by TRR’s “Authenticated Luxury Consignment” tagline and

126. *Id.* at 433.

127. *Id.* (citations omitted).

128. *Id.*

129. *Id.* at 430, 434.

130. *Chanel, The RealReal Agree to Mediation in Escalating Counterfeiting, Antitrust Fight, FASHION L.* (Apr. 9, 2021), <https://www.thefashionlaw.com/chanel-the-realreal-agree-to-mediation-amid-escalating-counterfeiting-antitrust-fight/> [hereinafter *Agree to Mediation*].

131. *Chanel, Inc.*, 449 F. Supp. 3d at 429–30.

132. *Id.* at 430.

133. *Id.*

134. *Id.*

135. *Id.*

overall representation to consumers.¹³⁶ After remarking that “wrongful intent is not a prerequisite to an action for trademark infringement [under the Lanham Act] . . . , and [] good faith is no defense,” the district court continued with its analysis of whether TRR can be held liable for infringement of the Chanel trademark by its “direct sale of an infringing product.”¹³⁷

Regarding the trademark infringement claim, the district court reinforced the premise that the Lanham Act itself “does not prevent one who trades a branded product from accurately describing it by its brand name, so long as the trader does not create confusion by implying an affiliation with the owner of the product.”¹³⁸ More specifically, others may use the trademark of another if such use “does not imply a false affiliation or endorsement” by the trademark holder of the alleged infringer.¹³⁹ However, in dismissing Chanel’s trademark infringement claim under 15 U.S.C. § 1114(1)(a) “based on [TRR’s] use of genuine Chanel Trademarks,”¹⁴⁰ the district court recognized sufficient facts for Chanel to plausibly allege trademark infringement under § 1114(1)(a) based on “[TRR]’s advertisement and sale of counterfeit Chanel

136. *Id.* (“The RealReal represents itself as ‘the world’s largest online marketplace for authenticated, consigned luxury goods.’ Indeed, The RealReal’s business model and brand are founded on the notion of ‘AUTHENTICATED LUXURY CONSIGNMENT’”) (citations omitted).

137. *Id.* at 438 (alterations in original) (first quoting *Sunward Elecs., Inc. v. McDonald*, 362 F.3d 17, 25 (2d Cir. 2004), and then quoting *GMA Accessories, Inc. v. BOP, LLC*, 765 F. Supp. 2d 457, 463 (S.D.N.Y. 2011), *aff’d sub nom.* 558 F. App’x 116 (2d Cir. 2014)); *see also id.* (“Strict liability under the Lanham Act does not turn on whether a defendant physically possessed the goods . . . [and] liability may be premised on the ‘the sale, offering for sale, distribution, or advertising of any goods or services.’” (alteration in original) (quoting *Abbott Labs v. Adelpia Supply USA*, No.15-CV-5826 (CBA) (LB), 2019 WL 5696148, at *7 (E.D.N.Y. Sept., 30, 2019)).

138. *Id.* at 436 (quoting *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 103 (2d Cir. 2010)).

139. *Tiffany (NJ)*, 600 F.3d at 102–03.

140. *Chanel, Inc.*, 449 F. Supp. 3d at 438–39 (“Applying the relevant *Polaroid* factors to the instant case, I find that Plaintiff has not sufficiently alleged facts in support of its infringement, false endorsement, or unfair competition claims. First, Chanel’s trademarks are incredibly well-known, recognizable, and prevalent in the luxury fashion market. Second, although [TRR]’s sale of Chanel products in the secondary market may very well compete with Chanel’s primary market offerings, the complaint also includes evidence suggesting that secondary fashion markets bolster primary markets. . . . Third, Chanel has identified no evidence of actual customer confusion, or that [TRR] has adopted the genuine Chanel Trademarks in bad faith. And finally, the luxury fashion market is a relatively sophisticated market that involves ‘[c]elebrities, stylists, and influencers [who] covet Chanel designs and accessories,’ which ‘command top-dollar prices.’ Balancing these factors, it is highly unlikely that a customer buying a secondhand Chanel product from [TRR]—which unambiguously holds itself out as [a] consignment retailer in a luxury market—would confuse the nature of [TRR]’s business, the source of its products, or its affiliation—or lack thereof—with Chanel.”) (alterations in original) (citations omitted).

products.”¹⁴¹ Squaring the Second Circuit’s decision in *Tiffany (NJ) Inc. v. eBay Inc.* with the argument for trademark infringement liability based on counterfeit sales, the district court noted plausible liability for direct infringement: “[E]ven though [TRR] [is] involved neither in the manufacture nor the affixing of [Chanel’s] trademark to [any counterfeits], its sale of the [counterfeits] [is] sufficient ‘use’ for it to be liable for the results of such infringement.”¹⁴²

Distinct from other companies that function as “platform[s] for the sale of goods by vendors,” TRR vests in itself the “sole discretion” and thus responsibility to “reject for sale, set prices, and create marketing for goods.”¹⁴³ Consequently, the district court found the marketing and selling of counterfeit Chanel products by TRR, along with the two TRR customer complaints about receiving counterfeit merchandise, sufficient for Chanel to plausibly allege TRR directly infringed on the Chanel trademark—especially where TRR “reaps substantial benefit” from its business model founded upon control of the “secondary market for trademarked luxury goods” and curation of purchase terms for the consumer.¹⁴⁴

Thus, although it dismissed the original trademark infringement claim by Chanel on the basis of genuine trademark use, the district court in *Chanel, Inc. v. The RealReal, Inc.* concluded: “As a result of this business model, [TRR] must bear the corresponding burden of the potential liability stemming from its ‘sale, offering for sale, distribution, [and] advertising of’ the goods in the market it has created.”¹⁴⁵ In ruling so, the district court recognized the quality control right held by the trademark holder as “[o]ne of the most valuable and

141. *Id.* at 438.

142. *Id.* at 440–41 (first and second alteration added) (quoting *El Greco Leather Prods. Co. v. Shoe World, Inc.*, 806 F.2d 392, 396 (2d Cir. 1986)); *see also id.* (“[TRR] argues that its liability for infringement on the basis of counterfeit sales is foreclosed by the Second Circuit’s decision in *Tiffany (NJ) Inc. v. eBay Inc.* However, [TRR]’s attempt to analogize to *Tiffany* is not persuasive, and the decision itself suggests that a company like [TRR] would be liable for direct infringement based on the sale of counterfeit goods. . . . Recognizing the basis for *Tiffany*’s opinion that eBay could not be held liable for direct infringement based on a vendor’s sale of counterfeit goods on the eBay platform, it is clear that [TRR]’s business model and Consignment Terms are materially different than those of eBay such that [TRR] can be held liable for direct infringement.”).

143. *Id.* at 441.

144. *Id.* (“By adopting a business model in which [TRR] itself controls a secondary market for trademarked luxury goods, and by curating the products offered through that market and defining the terms on which customers can purchase those products, [TRR] reaps substantial benefit.”).

145. *Id.* at 441 (second alteration in original) (quoting 15 U.S.C. § 1114(1)(a)).

important protections afforded by the Lanham Act.”¹⁴⁶ While both parties agreed to temporarily stay court proceedings to pursue private mediation and settle the matter, *Chanel, Inc. v. The RealReal, Inc.* underscores the tension between luxury brands and resellers surrounding trademark protection.¹⁴⁷

IV. KEEPING UP WITH THE TRENDS: BLOCKCHAIN AUTHENTICATION IS THE NEW STANDARD IN LUXURY

A. “*In Order to Be Irreplaceable One Must Always Be Different*”¹⁴⁸: How Lack of Unique Digital Certificates of Authenticity Constitutes a Material Difference

1. In Vogue: Blockchain Solutions Offer Greater Authenticity and Transparency to Millennial and Generation Z Consumers

In response to the pervasive counterfeiting issue in the luxury industry, major luxury brands have invested in digital platforms driven by permissioned blockchain technology to provide luxury consumers with “additional transparency, traceability and product authenticity.”¹⁴⁹ In April 2021, LVMH, Prada Group, and Cartier developed one such platform—Aura Blockchain Consortium (Aura)—in an effort to “raise the standards of luxury” by “offering blockchain agnostic solutions exclusively to luxury brands.”¹⁵⁰ By issuing certificates of authentication and recording luxury transactions on its

146. *Id.* (alteration in original) (quoting *Zino Davidoff SA v. CVS Corp.*, 571 F.3d 238, 243–44 (2d Cir. 2009)).

147. See *Agree to Mediation*, *supra* note 130.

148. See Julia Neel, *Best Coco Chanel Quotes*, BRITISH VOGUE (Aug. 18, 2017), <https://www.vogue.co.uk/gallery/coco-chanel-quotes-and-photos>.

149. *Customer Journey: Benefits for Customers*, AURA BLOCKCHAIN CONSORTIUM, <https://auraluxuryblockchain.com/customer-journey> (last visited Oct. 30, 2023) [hereinafter *Benefits for Customers*]; see also *What is Blockchain Technology?*, IBM, <https://www.ibm.com/topics/blockchain> (last visited Oct. 11, 2023) (“Blockchain is a shared, immutable ledger that facilitates the process of recording transactions and tracking assets in a business network. An *asset* can be tangible (a house, car, cash, land) or intangible (intellectual property, patents, copyrights, branding). Virtually anything of value can be tracked and traded on a blockchain network, reducing risk and cutting costs for all involved.”).

150. AURA BLOCKCHAIN CONSORTIUM, <https://auraconsortium.com/> (last visited Oct. 30, 2023); see also *About: Our Mission*, AURA BLOCKCHAIN CONSORTIUM, <https://auraluxuryblockchain.com/about> (last visited Oct. 30, 2023) (“We strive to make blockchain solutions and related technologies easy and available to all luxury brands.”).

permanent blockchain ledger, Aura “allows brands to have control over the fast growing pre-owned market, the future of luxury shopping for the new generation.”¹⁵¹

After purchase, consumers can scan the unique quick response (QR) code, near-field communication (NFC) chip, non-fungible token (NFT), radio-frequency identification (RFID), or other digital certificate of authentication fitted in each luxury item to then claim ownership of the luxury item, receive the certificate of authentication for the specific item, and unlock access to product information.¹⁵² With membership “open to all market players” in the luxury industry, the blockchain platform presents an opportunity for all luxury brands to bolster their authentication processes and mitigate the risk of counterfeits circulating in the luxury market.¹⁵³

Many established luxury brands have joined the founding members of luxury consortiums in implementing blockchain technology to their processes.¹⁵⁴ With the increased focus towards environmental accountability, blockchain solutions like Aura present an innovative approach for luxury brands to provide its consumers with “unprecedented transparency into supply chains” and to demonstrate that “brands are stepping up to the demand for more sustainable products with circularity designed into the life cycle.”¹⁵⁵

151. *Customer Journey: Benefits for Brands*, AURA BLOCKCHAIN CONSORTIUM, <https://auraluxuryblockchain.com/customer-journey> (last visited Oct. 30, 2023); see also *Levelling up Luxury Resale with Blockchain*, AURA BLOCKCHAIN CONSORTIUM (Sept. 6, 2022), <https://auraluxuryblockchain.com/insight/levelling-up-luxury-resale-with-blockchain> (“One obvious challenge with applying new technology to the second-hand markets is that many products are already circulating that didn’t have blockchain-based digital certificates issued when they were manufactured. The only way to authenticate these goods is to have them checked by humans with enough expertise to identify counterfeit goods. However, there is no reason why brands could not potentially offer to retroactively issue certificates for any item that can be satisfactorily authenticated. For instance, if someone has an original receipt and can present their product at a licensed outlet for inspection, a brand could easily issue a blockchain-based certificate.”).

152. *Benefits for Customers*, *supra* note 149 (describing the luxury authentication process in the animated video).

153. See *About: Governance*, AURA BLOCKCHAIN CONSORTIUM, <https://auraluxuryblockchain.com/about> (last visited Oct. 30, 2023).

154. See *Our Members*, AURA BLOCKCHAIN CONSORTIUM, <https://auraluxuryblockchain.com/members> (last visited Oct. 30, 2023) (listing the five founding members: LVMH, Mercedes-Benz, OTB, Prada Group, and Richemont; the founding associate members: Cartier, Louis Vuitton, Maison Margiela, and Prada; and the associate and affiliate members: Bvlgari, Czapek, Givenchy, Hennessy, Hublot, Jil Sander, Loro Piana, Marni, Miu Miu, H. Moser & Cie, and Noble Panacea).

155. *Leveraging Blockchain for Supply Chain Transparency in the Luxury Sector*, AURA BLOCKCHAIN CONSORTIUM (Sept. 20, 2022), <https://auraluxuryblockchain.com/insight/blockchain-for-supply-chain-transparency-luxury-sector> (“[T]he prevailing sentiment was that consumers want

2. Luxury Items Resold Without Blockchain-Based Certificates of Authentication Infringe on Luxury Brands' Trademarks Under the Material Difference Exception

By function of the unique QR code, NFC chip, NFT, RFID, or other digital certificate of authentication fitted in each trademarked luxury item, luxury consumers can access the specific supply chain record for their genuine purchased product.¹⁵⁶ Consequently, blockchain enhances traceability along the luxury supply chain by enabling parties to validate transactions added to the permanent, tamper-proof centralized ledger that chronologically records each order, shipment, invoice, and payment: “From design to raw materials, manufacturing, maintenance passport, brand DNA, carbon footprint and much more, this technology allows customers to make educated decisions based on increased knowledge and transparency.”¹⁵⁷ Importantly, with the permissioned blockchain platform, product details are not made publicly available on an open ledger but are instead shared with owners after the individual purchase or subsequent transfer—whether through gifting or resale—of each genuine luxury item.¹⁵⁸

As Aura underscores, the level of transparency offered by blockchain solutions for the luxury industry “provides the customer with a level of knowledge which gives them back power and holds [organizations] accountable, while building trust between both parties.”¹⁵⁹ Especially with the increasing trend towards more sustainability in commerce, luxury items resold without blockchain-based digital certificates “likely . . . affect consumers’ perceptions of the desirability” of genuine luxury trademarked goods.¹⁶⁰ Consequently, reselling luxury goods bearing marks of luxury brands without their unique digital certificates of authentication amounts to more than mere “stock[ing], display[ing], and resell[ing]” under the first sale doctrine of the Lanham Act.¹⁶¹

their favoured brands to become more sustainable, rather than switching to more sustainable alternatives. Therefore, brands rightly see this as an opportunity to deliver.”)

156. *Id.*

157. *Id.*

158. *Id.* (“[W]hoever holds the product will hold access to all the information related to the product.”).

159. *Id.*

160. *Iberia Foods Corp. v. Romeo*, 150 F.3d 298, 303 (3d Cir. 1998).

161. *Beltronics USA, Inc. v. Midwest Inventory Distrib., LLC*, 562 F.3d 1067, 1072 (10th Cir. 2009) (quoting *Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1241 (10th Cir. 2006)).

Similar to Beltronics USA, where the original serial number label of each trademarked product entitled the purchaser to receive certain products and services, the QR code, NFC chip, NFT, RFID, or other digital certificate of authentication fitted in each trademarked luxury item enables purchasers to claim ownership, certify authentication, and access product information.¹⁶² Per the Third Circuit in Iberia Foods, if consumers would consider the difference relevant to their purchasing decision, then such difference would be deemed “material” and constitute an exception to the first sale doctrine.¹⁶³ Moreover, similar to Beltronics USA, purchasers who needed the original serial number label to receive benefits such as “software upgrades, rebates, product use information, service assistance, warranties, and recalls,” luxury purchasers now need the blockchain-based digital certificate to receive the benefits of their trademarked-good purchase, including luxury authentication, supply chain traceability, and ownership transfer.¹⁶⁴

Current luxury resale practice mirrors both Beltronics USA, where resale of trademarked goods without their original serial label constituted trademark infringement based on material differences in nonphysical characteristics, and Iberia Foods Corp., where materially different goods bearing identical marks “tarnish[ed] the ‘commercial magnetism’ of the trademark” and consequently injured the trademark owner.¹⁶⁵ Therefore, the resale of luxury trademarked goods without their blockchain-based digital certificate—QR code, NFC chip, NFT, RFID, or other certificate—constitutes trademark infringement under the material difference exception to the first resale doctrine.¹⁶⁶

B. *“One Can Get Used to Ugliness, but Never to Negligence”¹⁶⁷: How Absence of Blockchain Authentication in Resale Gives Rise to the*

162. *Id.* at 1069; *supra* note 65 and accompanying text; *Benefits for Customers*, *supra* note 149 and accompanying text.

163. *Iberia Foods Corp.*, 150 F.3d at 302–03; *supra* notes 66–67 and accompanying text (explaining the question of “materiality” under the first sale doctrine exception).

164. *Beltronics USA, Inc.*, 562 F.2d at 1069; *supra* notes 152–155 and accompanying text (detailing the benefits of luxury global blockchain for customers).

165. *See Beltronics USA, Inc.*, 562 F.2d at 1072–73; *supra* note 65–67 and accompanying text; *Iberia Foods Corp.*, 150 F.3d at 303; *supra* notes 70–72, 151 and accompanying text.

166. *See Iberia Foods Corp.*, 150 F.3d at 302–04; *supra* notes 70–72, 151–155 and accompanying text.

167. Neel, *supra* note 148.

Quality Control Exception

1. Luxury Items Resold Without Blockchain Authentication Infringes on Luxury Brands' Trademarks Under the Quality Control Exception

Similar to *Zino Davidoff*, where the cologne trademark holder attached UPCs to each of its trademarked products and embedded information about the particular unit including “the time and place of production, the production line, [and] ingredients used” in the unique multi-digit codes, the luxury brand blockchain members attach unique digital identifiers of authentication to each of their trademarked products and embed supply chain information and after-sales services in the QR codes, NFC chips, NFTs, RFIDs, or other digital certificates.¹⁶⁸ In contrast to the luxury brands' use of objective, blockchain-based digital certificates for authentication, resellers like TRR rely upon the trained yet still subjective assessments of their authenticators, copywriters, and quality control team for authentication.¹⁶⁹

In a press release headlined “The RealReal has the Most Rigorous Authentication Process in the Marketplace,” founder and former CEO Julie Wainwright underscored the foundational role of technology and data in the TRR authentication process.¹⁷⁰ Wainwright maintained that TRR ensures “the riskiest products get the most scrutiny” from its most experienced authenticators through use of its data-driven algorithms.¹⁷¹ However, even with the added benefit of machine learning and AI in its changing internal authentication process, TRR fails to reach the level of rigor guaranteed by the simple yet secure blockchain authentication process luxury brands increasingly use

168. See *Zino Davidoff SA v. CVS Corp.*, 571 F.3d 238, 240 (2d Cir. 2009); *Benefits for Customers*, *supra* note 149.

169. Press Release, The RealReal, *supra* note 111.

170. *Id.* (including a section of the press release titled: “Technology and Data Drive our Processes and Inform our Teams”).

171. *Id.* (“As the largest marketplace for authenticated luxury consignment, we have an extensive set of data—which serves as the backbone of our authentication process and aids our teams. Among other things, it’s leveraged to update algorithms that route the highest risk products to our most experienced authenticators, making sure that the riskiest products get the most scrutiny. Our team works diligently and is constantly innovating to ensure we maintain the highest standards and keep fraudulent products off the market. Our authentication process—and all of our internal processes—are changing constantly, driven by new technologies like machine learning and AI. For example, we anticipate that much of our copywriting and pricing will be automated using machine learning in Q1.”).

themselves.¹⁷² All luxury industry participants—the brands, the resellers, and the consumers—stand to benefit from the instant verification of genuine luxury goods via blockchain that necessarily “obviate[s] the need for checks, and enable[s] simple transfers” to subsequent owners.¹⁷³ Blockchain promotes traceability and authentication within the luxury industry by enabling multiple parties within one secure digital environment to mutually validate transactions on the “time-stamped, permanent, tamper-proof” ledger where digital assets such as NFTs represent tangible luxury products.¹⁷⁴ Therefore, external authentication of luxury items by those other than the trademark holder itself, with reliance on subjective tell-tale signs of craftsmanship, does not measure up to the quality control standards of luxury brands in the modern era of blockchain technology.¹⁷⁵

Applying the Second Circuit’s reasoning in *Zino Davidoff*, “[w]here the alleged infringer has interfered with the trademark holder’s ability to control quality, the trademark holder’s claim is not defeated because of failure to show that the goods sold were defective,” the resellers’ interference with the luxury brand blockchain members’ implementation of digital identifiers as “legitimate steps to control quality” by reselling trademarked goods using inferior authentication methods that allow counterfeit luxury items to circulate in the market “unreasonably subjects” luxury brands as trademark holders “to

172. See *id.*: *Authenticating Luxury Goods with Blockchain*, AURA BLOCKCHAIN CONSORTIUM (Aug. 23, 2022), <https://auraluxuryblockchain.com/insight/authenticating-luxury-goods-with-blockchain>.

173. *Authenticating Luxury Goods with Blockchain*, *supra* note 172 (“A designer handbag is fitted with a QR code as it leaves the warehouse destined for the store. As well as a QR code, any other type of authentication technology could be used, such as an NFC chip. When someone buys the bag, they scan the QR code on the item, claim its ownership, easily certify its authenticity and access all of the product information. The certificate of authenticity lasts forever and will always be available digitally. The owner has full control of their data. If they later want to take it back to the store for maintenance, they can prove that the bag hasn’t been found or stolen by demonstrating ownership via the Aura Blockchain Consortium platform. Similarly, bags sold on the secondary market are instantly verified as genuine, obviating the need for checks, and enabling simple transfers to the new owner to ensure they have the same access as the previous owner to the information about the product.”).

174. *Id.* (“Blockchain enables multiple parties in a network to mutually validate transactions of digital assets within a trusted, secure digital environment. It creates a time-stamped, permanent, tamper-proof record of each transaction. Digital assets can be cryptocurrencies, but they can also be unique tokens (NFTs) representing real-world physical items like luxury goods. As such, blockchain offers a compelling proposition for traceability and authentication in the luxury sector.”).

175. See Lauren Milligan, *Can You Tell Real From Fake?*, BRITISH VOGUE (July 30, 2014), <https://www.vogue.co.uk/article/vestiaire-collective-quality-control-say-no-to-fakes>; see also *Authenticating Luxury Goods with Blockchain*, *supra* note 172.

the risk of injury to the reputation of [their marks].”¹⁷⁶ Thus, like *Zino Davidoff*, where the Second Circuit found the trademark holder used its UPC system as an “established, legitimate, substantial, and non-pretexual” quality assurance and anti-counterfeiting measure, luxury brands use blockchain technology with digital identifiers—such as QR codes, NFC chips, NFTs, and RFIDs—in a similar fashion.¹⁷⁷

Consequently, similar to *Zino Davidoff*, where removal of UPCs from trademarked goods infringed on the rights of the cologne trademark holder, the resale of luxury trademarked goods absent blockchain authentication—whether QR code, NFC chip, NFT, RFID, or other blockchain-based digital identifier—constitutes trademark infringement under the quality control exception to the first resale doctrine.¹⁷⁸

2. One for All, All for One: Blockchain Authentication Stifles Counterfeit Competition for the Benefit of the Entire Luxury Industry

Similar to the UPC system in *Zino Davidoff* that “facilitates [the trademark holder’s] ability to identify counterfeit [trademarked] products by allowing it to scan for products which either lack a UPC or exhibit a UPC known to be used by counterfeiters,” the authentication methods offered by luxury blockchain consortiums, in which QR codes, NFC chips, NFTs, RFIDs, and other digital certificates unlock personal access to permanent records on secure digital ledgers, consequently streamline and improve counterfeit identification based on the absence of genuine digital identifiers on the luxury items themselves or the absence of validated transactions on the common ledger.¹⁷⁹

176. *Zino Davidoff SA v. CVS Corp.*, 571 F.3d 238, 243 (2d Cir. 2009).

177. *Id.* at 244 (“[The trademark holder] asserts that its codes serve as a control of quality in two ways: (1) the codes permit the easy detection of counterfeits, and (2) they improve [the trademark holder’s] ability to identify defective products, effectuate a targeted recall, and remedy production defects.”); see Rebecca Cairns, *Crypto Is Crashing but the Tech Behind It Could Save Luxury Brands Billions*, CNN BUS., <https://www.cnn.com/2022/06/26/business/aura-blockchain-luxury-counterfeit-hnk-spc-intl/index.html> (last updated June 30, 2022, 3:26 AM) (“[Aura Blockchain Consortium general secretary] Ott says [the digital identifiers] will give consumers a greater level of proof and protection by acting as a digital certificate of authentication that uses ‘bank level encryption’ and is ‘impossible to fake’—foiling counterfeiters. Digital twins, which can be accessed via a webpage or mobile app, will provide more insight into the product’s origin, enhancing ‘traceability and trust’ around sustainability and ethical issues for conscious consumers . . .”).

178. See *Zino Davidoff SA*, 571 F.3d at 246.

179. See *id.* at 244; *Benefits to Customers*, *supra* note 149; *Authenticating Luxury Goods with*

As the Second Circuit in *Zino Davidoff* acknowledged, the “high expense involved in placing a unique number on each unit” deters counterfeiters who necessarily “omit such a number from their packaging or repeatedly use sets of fake numbers on a series of counterfeit units.”¹⁸⁰ Likewise, the “high expense” involved in fitting each luxury product with its own QR code, NFC chip, NFT, RFID, or other identifier that matches the recorded transaction on the secured digital ledger deters counterfeiters even more due to their inability to tamper with the blockchain technology.¹⁸¹ Thus, luxury brands’ use of blockchain authentication not only protects their own trademark rights but also supports the entire luxury industry in “fighting counterfeits.”¹⁸²

V. FASHION-FORWARD TRADEMARK PROTECTION: CODIFYING THE RIGHT TO PRECLUDE SALES OF TRADEMARKED LUXURY GOODS FROM RUNWAY TO RESALE

A. *Bid “First Sale” Adieu: A Proposal to Codify the “First Resale” Doctrine Under Trademark Law*

Current trademark law does not afford luxury brands sufficient trademark property rights, especially given the limitation imposed by the first sale doctrine.¹⁸³ While the first sale doctrine codified under copyright law adequately protects competing interests as Congress intended, such adequacy cannot be similarly vouched for in the application of the first sale doctrine to trademark law.¹⁸⁴ Unlike the completely statutory nature of copyright property rights, both common law and statutory law influence trademark rights.¹⁸⁵ Thus, while legislators pursued codification of general federal trademark regulation, the first sale doctrine under trademark law remains uncodified.¹⁸⁶ Amidst the

Blockchain, *supra* note 172.

180. *Zino Davidoff SA*, 571 F.3d at 240.

181. *See id.* (“[Trademark holder]’s use of the UPC plays an important role in fighting counterfeits.”); Cairns, *supra* note 177.

182. *See Zino Davidoff SA*, 571 F.3d at 240. *See generally The Truth Behind Counterfeits*, U.S. CUSTOMS & BORDER PROTECTION, <https://www.cbp.gov/trade/fakegoodsrealdangers> (last updated May 16, 2023) (discussing the dangers of counterfeit products).

183. *See* discussion *supra* Section II.B.2.

184. *See* discussion *supra* Sections II.B.1–2.

185. *See* discussion *supra* Sections II.A.1, II.B.1.

186. *See* discussion *supra* Section II.B.2 (discussing the development of the first sale doctrine in trademark law).

absence of legislative intent to apply the first sale doctrine to trademark law, courts have adopted varied approaches toward precluding the rights of trademark owners to control sales of their trademarked goods.¹⁸⁷

Rather than codifying the first sale doctrine as the courts have developed it under common law, Congress should codify an alternative “first resale” doctrine that limits the right of trademark holders to preclude sales of their trademarked goods after their first *resale*.¹⁸⁸ Since the Supreme Court introduced the first sale doctrine in its 1924 *Prestonettes v. Coty* decision, the nature of commerce in the United States, and thus the protection required for its participants, has changed.¹⁸⁹ Despite concerns about monopolization of brands, particularly those within the luxury industry, the first sale doctrine as it stands under common law unduly limits the control of rightful owners of trademarks in commerce and thus inhibits innovation.¹⁹⁰

B. *Fostering Competition and Maintaining Quality with the “First Resale” Doctrine*

Just as legislators identified the need for modern trademark regulation under federal law in the mid-1800s, Congress should now modernize federal trademark law to effectively resolve the adverse consequences of twenty-first century e-commerce on trademark rights.¹⁹¹ Narrowing the scope of the first sale doctrine defense via statutory law does not grant trademark holders an unfair advantage over resellers.¹⁹² Rather, it restores the balance of competing

187. See discussion *supra* Section II.B.2.b (highlighting two exceptions to the first sale doctrine: the material difference exception and the quality control exception).

188. See discussion *supra* Section II.B.2. See generally *supra* text accompanying note 166 (arguing that reselling luxury goods without their applicable digital certificate would establish trademark infringement under the first sale doctrine).

189. See *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924); *supra* note 51 and accompanying text.

190. See, e.g., 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, 432 (2022) (noting that luxury brands are “attempt[ing] to maintain their market share in the wake of emerging secondhand retailers like [TRR]”). Some scholars argue that changing the existing legal framework of the first sale doctrine as applied to trademarks may result in luxury brands turning into “behemoths that control their market long after the point of original sale with no incentive for innovation in light of secondhand competition.” *Id.* Such critics worry about post-first sale authentication rights contradicting the intent of Lanham Act drafters who sought to deter monopolization by trademark holders. See Baumgarten, *supra* note 4, at 120–23.

191. See discussion *supra* Part IV (discussing the use of blockchain solutions to prevent counterfeiting issues associated with luxury goods).

192. See, e.g., *S.F. Arts & Athletics, Inc. v. U.S. Olympic Comm.*, 483 U.S. 522, 539–40 (1987).

interests in trademark and comports with the Supreme Court belief that “trademarks foster competition and the maintenance of quality by securing to the producer the benefits of good reputation.”¹⁹³ Luxury brands that decide to partner with resellers either now or in the future will not be barred from doing so by reconstruction of the first sale doctrine.¹⁹⁴ Instead, participants in the luxury industry that acquire trademark rights by use or registration will gain the incentive to innovate and respect the marks of others to the benefit of the entire industry.¹⁹⁵

Thus, by codifying the modern “first resale” doctrine in lieu of the old-fashioned first sale doctrine, Congress will rightfully regulate interstate commerce as it affects the largely unregulated resale industry, simply addressing an already-present need.¹⁹⁶ Such codification presents the best compromise in allowing resellers to continue selling genuine luxury goods previously made and sold without any blockchain-based digital identifiers while giving trademark holders the right of first resale to the genuine luxury goods that meet the heightened quality standards necessary to protect the goodwill of the luxury industry for posterity.¹⁹⁷ In summary, expansion of trademark holders’

But see Baumgarten, *supra* note 4, at 123–31.

193. *S.F. Arts*, 483 U.S. at 531 (quoting *Park ‘N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 198 (1985)).

194. See Lisa Jucca, *Prada Sees Second-Hand Fashion as Opportunity, Weighs Partnerships*, REUTERS (Dec. 1, 2021, 1:52 AM), <https://www.reuters.com/business/retail-consumer/prada-sees-second-hand-fashion-opportunity-weighs-partnerships-2021-12-01/> (“Lorenzo Bertelli, the eldest son of co-Chief Executives Patrizio Bertelli and Miuccia Prada and the future brand leader, said . . . ‘[Second hand as a strategy] can be a partnership with a player or it can be something more in-house, or both of them, a sort of hybrid solution like for e-commerce,’ . . .”).

195. See Fontana et al., *supra* note 91 (“What we hear [from luxury executives, representatives of luxury industry associations, experts on anti-counterfeiting from academia and the public sector, and executives from the music and pharmaceuticals industries] suggests that luxury firms’ failure to contain the growth in counterfeiting is rooted in a hollowing out of their brands. Many luxury brands have become symbols of status and privilege but not much else. The emphasis across the industry has been on signaling rather than delivering luxury; intangible over tangible product attributes; and the logo over all other markers of quality.”). Protection under the proposed “first resale” doctrine will allow luxury trademark holders to constructively revive rather than merely preserve their industry. See generally *supra* Section IV.B.2 (noting that the application of blockchain authentication methods to luxury goods will both secure trademark holder rights and prevent counterfeiting).

196. See discussion *supra* Section II.A.2.

197. See discussion *supra* Sections IV.A.–B. Based on the production possibilities curve in economics, companies must make tradeoffs between two products that depend upon the same finite resources. See generally Andrew Bloomenthal, *Production Possibility Frontier (PPF): Purpose and Use in Economics*, INVESTOPEDIA, <https://www.investopedia.com/terms/p/productionpossibilityfrontier.asp> (last updated Aug. 17, 2022) (discussing how companies must make tradeoffs between two

rights beyond the first sale and into first resale will enable luxury brands to fully engage in technological advancements such as blockchain while maintaining the prestige of tradition.¹⁹⁸

VI. CONCLUSION

If Congress codifies the proposed “first resale” doctrine for trademark law, the more robust trademark protection will not inhibit but rather inspire innovation in commerce, especially in the luxury industry.¹⁹⁹ As *Chanel, Inc. v. The RealReal, Inc.* illuminated, every participant in the luxury industry—every brand, reseller, and consumer—holds an interest in authenticating the trademarked luxury goods in their possession and fighting against the counterfeit market.²⁰⁰ Codification of the “first resale” doctrine rather than the first sale doctrine will empower luxury brands of all sizes to channel their investments into their brand development rather than expend more of their finite resources into anti-counterfeiting efforts that resellers later impede with their misaligned authentication practices.²⁰¹

Blockchain authentication proves that exclusivity and sustainability are not antithetical in the luxury world.²⁰² By fitting luxury items with unique QR codes, NFC chips, NFTs, RFIDs, or other digital identifiers and recording every luxury transaction on the permissioned blockchain, luxury brands raise the standards for their genuine trademarked goods and consequently frustrate the deceptive work of counterfeiters for the shared benefit of the luxury

products that depend on the same finite resources based on the production possibilities curve). Allocating resources to one endeavor consequently withdraws resources from the other. *Id.* While the production possibilities curve itself represents the opportunity cost of engaging in two different endeavors using the maximum potential of the finite resource, the production possibilities frontier (PPF) represents production beyond the capabilities of an entity. *Id.* Only technological advancement can shift the curve upwards and allow an entity to produce more than its current capability. *Id.* For luxury brands, the curve illustrates the tradeoffs between attending to their innovative brand development and protecting their marks from counterfeiting to which the luxury resale market adds further complication and litigation. *See generally id.* (noting that “resources are taken from one product and [must be] allocated to the other”). Given the prevalent counterfeit issue in the luxury industry, luxury brands are investing millions of dollars into their anti-counterfeiting efforts but those same finite resources could be used towards innovation in the luxury industry for the overall benefit of national commerce. *See id.*

198. *See* discussion *supra* Section IV.A.1.

199. *See* discussion *supra* Section V.B.

200. 449 F. Supp. 3d 422, 447–48 (S.D.N.Y. 2020); *see* discussion *supra* Section IV.B.2.

201. *See* discussion *supra* Section V.B.

202. *See* discussion *supra* Section IV.A.1.

industry.²⁰³ Integrating blockchain into the industry encourages luxury creatives to freely innovate with the protection of their marks and enables consumers to prioritize sustainability in their luxury investments.²⁰⁴

Thus, at first, Chanel may have seemed old-fashioned for pursuing trademark infringement claims against resellers such as The RealReal, especially given the trend towards sustainability in the luxury industry.²⁰⁵ However, further examination of both the material difference and quality control exceptions to the first sale doctrine illustrates the merit in Chanel elegantly refusing to concede its trademark rights.²⁰⁶ Since blockchain platforms such as Aura Blockchain Consortium offer an innovative and simple method for authenticating luxury trademarked products, brands can continue to foster competition and maintain quality in the luxury industry without yielding their authority to resellers.²⁰⁷ As Coco Chanel said: “Simplicity is the keynote of all true elegance.”²⁰⁸

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203. See discussion *supra* Sections IV.A–B.

204. See discussion *supra* Section III.A.1.

205. See discussion *supra* Sections III.A–B.

206. See discussion *supra* Sections I, II.B.2.b.

207. See discussion *supra* Part IV.

208. Barry Samaha & Shelby Ying Hyde, *The Best Coco Chanel Quotes About Fashion, Love, and Success*, HARPER’S BAZAAR (July 7, 2021), <https://www.harpersbazaar.com/fashion/designers/g32971271/best-coco-chanel-quotes/>.

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