

Doctrine of First Sale: The Trademark Face-Off between CHANEL & WGACA

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INTRODUCTION

The recent decision in *Chanel v. WGACA*¹ serves as a pivotal moment in the ongoing dialogue surrounding trademark dilution through misrepresentation in advertisements. In an era where the integrity of a brand is paramount to its market success, this case underscores the vital role trademarks play in safeguarding a company's identity and consumer trust. The ruling in this case clarifies the parameters of trademark enforcement in the advertising sphere and highlights the broader implications for luxury brands in a competitive marketplace rife with counterfeits and dilution of brand value.

SYNOPSIS OF FACTS

Chanel Inc. (**Chanel**) instituted an action in the U.S. District Court for the Southern District of New York (the **Court**) against luxury reseller, What Goes Around Comes Around LLC (**WGACA**) for trademark infringement and false association under the Lanham Act and New York law. Chanel claimed that WGACA's advertising and resale practices misled consumers into believing that both entities had an affiliation. On February 6, 2024, Chanel triumphed in its trademark infringement and false advertising lawsuit against luxury reseller WGACA and the jury awarded Chanel US\$4 million (Four Million United States Dollars) in statutory damages for willful trademark infringement related to the sale of counterfeit bags.

In this case, Chanel asserted ownership of 8 (eight) registered trademarks, including CHANEL and CC, and emphasized that it does not sell CHANEL-branded goods in

the second-hand market. Chanel accuses WGACA of unauthorized use of its trademarks, images of Coco Chanel, and misleading advertising, including the use of hashtags like #WGACACCHANEL. The complaint filed by Chanel was in the main, that WGACA's activities misrepresented the authenticity of its Chanel items leading to the erroneous belief that WGACA's sales were endorsed or sponsored by Chanel.

In response, WGACA filed cross-motions for summary judgment, arguing that Chanel's claims lack factual basis and represent an attempt to control the secondary market for its products. Further, WGACA asserted that it operated independently of Chanel.

ISSUES

The issues for determination before the Court included:



whether the resale by WGACA of alleged voided serial number products of Chanel amounts to trademark infringement;

whether WGACA's alleged use of Chanel's marks and other indicia of the House of Chanel in its advertising channels constituted false advertising and false association; and



whether WGACA alleged false association with Chanel is a case of unfair trade practice and deceptive advertising.

DECISION OF THE COURT

The Court's jury found WGACA liable for trademark infringement, false association, unfair competition, and false advertising in its trial against Chanel, and awarded Chanel US\$4 million (Four Million United States Dollars) in damages.

In sum, the Court held that while Chanel did not present direct evidence that WGACA had manufactured counterfeit Chanel-labeled products, the sale and advertisement of counterfeit goods was evidenced as WGACA had sold 12 (twelve) counterfeit handbags and hundreds of non-genuine point-of-sale items – products intended exclusively for use in Chanel boutiques.²

ANALYSIS OF THE COURT'S DECISION

In finding against WGACA, the jury examined the age-long eight-factor balancing test formulated by the US Second Circuit Court in *Polaroid Corp v. Polarad Electronics Corp*:³

- the strength of the registered mark;
- the similarity between the registered mark and the mark used by the alleged infringer;
- the alleged infringing product's competitive proximity to the registered owner's product;
- the likelihood that the registered owner will bridge the gap to enter the same market as the alleged infringer;
- actual confusion on the part of purchasers;
- the alleged infringer's good faith;
- the quality of the alleged infringer's product; and
- the sophistication of the buyers in the relevant market.

The jury found that Chanel, as a luxury brand, had gained notoriety on the strength of the Chanel marks and the unfair association by WGACA created the possibility of consumer confusion.

WGACA's main contention was that they sold genuine products. Notably, WGACA sought to rely on the doctrine of nominative fair use in using Chanel's trademark to refer to its products on their resale platform as they have done for other luxury brands. It is however important to stress that whilst the doctrine of "nominative fair use" permits a party to use a trademark as necessary to describe the owner's product, it may only use such mark so much as necessary



to identify the said product and nothing more. A reseller is not allowed to use a trademark or other brand indicia in a way that would likely mislead consumers into believing the brand is endorsing, sponsoring, or is somehow affiliated with the reseller or its resale business.

The Lanham Act⁴ prohibits any person from using in commerce, in connection with any goods, 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 in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities.

Worthy of exposition is the legal doctrine of "first sale" as applicable in the US,⁵ otherwise known as *doctrine of exhaustion of rights (exhaustion of goods)* which provides that once a genuine product has been sold, the purchaser may resell the product without recourse from the intellectual property owner. However, the doctrine would not apply if the goods are not "genuine" or are "materially different" from the goods that were originally authorized for sale by the brand owner. Generally, the Lanham Act does not impose liability for the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner because such a sale does not inherently create consumer confusion or deceive the public. This was reinforced in the decision of *Polymer Tech. Corp. v. Mimran*.⁶ wherein the District Court held that the resale of Polymer ophthalmic products, including solutions for the care of contact lenses and without tampering by Mimran did not amount to an infringement. Summarily, what is fundamental is the genuineness of the product.

2. These products included vanity trays, tissue box holders, jewelry boxes, and hand mirrors.

3. 287 F.2d 492 (2d Cir.1961)

4. Section 1125 (a)(1) (B) of the Lanham Act.

5. *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924)

6. 975 F.2d 58, 61 (2d Cir. 1992).



At the heart of the Chanel lawsuit is its argument that WGACA's advertisements suggested that it approved of – or was in some way affiliated with WGACA resale efforts and consequently WGACA infringed its trademarks in the process. The resounding question would be how WGACA, and similar resale platforms can mitigate future legal issues with regard to their use of the names and other trademarks of the luxury brands whose products they advertise and sell.

The surge in the resale market has been fueled by increasing awareness and concern for sustainability, coupled with consumer's increasing desire for affordable yet quality apparel and classic fashion. It is thus imperative for the reseller to evolve thorough authentication processes in place especially since the Lanham Act generally does not impose liability for the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner but imposes liability on non-genuine goods.

The right to resell a genuine product also does not give the re-seller the right to use the brand owner's trademarks and other intellectual property in a way that is likely to lead consumers to believe that the brand owner has endorsed or is somehow associated with the reseller. Particularly, while the doctrine of "nominative fair use" permits a party to use a trademark or brand name as necessary to describe another party's product, and the doctrine of first sale must be upheld, a user may only use a mark so much as necessary to identify the product.

Additionally, resellers need to evade liability by avoiding wherever possible, any suggestion that their goods are affiliated with, endorsed by, or approved by the original

brand owner.⁷ They should also astutely and narrowly describe any claims regarding the authenticity of such displayed items. What is key for resellers herein is to balance effective advertising with legal constraints.

Relatedly, resellers likely need to develop stringent internal procedures for reviewing advertisements that make use of third-party trademarks. A cautious approach like this could prevent unauthorized associations with brands, "unless or until" explicit permission is granted.

BRIEF COMMENTARY ON THE POSITION UNDER NIGERIAN LAW

The Nigerian jurisprudence on false association and false advertisement in relation to trademarks is not as robust as in the United States where the Case was adjudicated. For instance, certain concepts that were highlighted in the Case such as first sale doctrine and nominative fair use of trademarks which were discussed above are not directly known to Nigerian law. However, from the statutory provisions in Nigeria on trademarks and decided cases, trademarks owners have adequate protection from infringement of their trademarks.

First sale/exhaustion of rights doctrine has been encountered in Nigerian courts under the concept of parallel importation. Parallel importation is the importation of genuine goods from a country where the goods are usually less expensive into another country without the consent of the proprietor of the trademark, to be sold together with its costlier counterpart which are imported by the proprietor or from a source controlled by the proprietor. In **Pfizer Specialties Limited v. Chyjob Pharmacy Limited**,⁸ the court held that parallel importation is a foreign doctrine, which is not actionable under Nigerian Law. The regime of trademark infringement and false association is however, covered under the Trademarks Act.⁹

Section 5(2) of the Trademarks Act seeks to ensure that no one other than the registered proprietor of a trademark uses a mark either identical or so nearly resembling it as to likely deceive or cause confusion in the course of trade relating to the goods of the proprietor.¹⁰

False association though not expressly provided for under the Trademarks Act or other Nigerian laws may be remedied by the common law doctrine of passing off, whose ingredients are:

10. CAP T13 Laws of the Federation of Nigeria ("LFN"), 2004 (the "Trademarks Act") as amended.



that the owner of the mark has established goodwill or a reputation in the market concerning their goods or services; and



that the defendant has made a misrepresentation that is likely to deceive or confuse the public.¹¹

For a mark to merit protection, it implies that the mark must have established goodwill or a reputation in the market concerning their goods or services. *Eto (Nig.) Ltd v G. T. Inv Ltd*,¹² the Court held that “goodwill” refers to business reputation, patronage, and other intangibles that are considered when appraising a business.

The Nigerian Code of Advertising Practice, Sales Promotion and Other Rights/Restrictions on Practice (5th Edition) (the **Code**) offers direct provision on *false association through advertisement*. Article 3 of the Code on honesty of advertisement provides that advertisements shall be framed in a way that does not abuse the trust of consumers or exploit their lack of experience or knowledge. This provision prohibits advertisement that is likely to cause confusion or misrepresentation such as in the WGACA case.

Relevantly, Article 28 of the Code speaks to genuineness of advertisement (an issue that was thrown up in the

Chanel Case) and provides that advertisements shall not contain false representation that is likely to confuse or induce others in such a manner to believe that the product, services or advertisement of another are those of/or connected with the advertiser or vice versa. Article 29 also provides that “advertisements shall not imitate or be closely similar to another previously published or exposed advertisement to the extent that the latter advertisement is confused with or associated with the former advertisement.”

CONCLUSION

The Chanel v. WGACA decision not only reinforces the critical nature of trademark protection in maintaining brand integrity but also highlights significant gaps in the Nigerian legal framework surrounding trademark dilution. While the Court's ruling provides essential clarity on issues such as false association, first sale doctrine and its limitations—concepts that remain largely unexplored in Nigerian law—there is a pressing need for a more comprehensive legal approach to trademark violations in Nigeria.

As the global marketplace continues to expand, strengthening trademark law in Nigeria will be vital in promoting fair competition and protecting the interests of consumers and brand owners alike.

11. *I.T. (Nig.) Ltd. v. B.A.T. (Nig.) Ltd* (2009) 6 NWLR (Pt. 1138) 577 @ 647. *The misrepresentation usually involves using a name, mark, or packaging that is similar to that of the owner, leading consumers to believe that the defendant's products or services are associated with or endorsed by the owner.*

12. (2011) 2 NWLR (Pt. 1234) 302

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