

AN OVERVIEW OF TRADEMARK LAW DEVELOPMENTS IN FASHION RESALE AND UPCYCLING

ANN-LOUISE SARI AND LYDIA LOSCH

The fashion industry has long been characterized by its rapid pace, with trends that come and go almost overnight, often leading to a cycle of overproduction and waste.¹ The rise of “fast fashion,” which relies on cheap manufacturing and short-lived garment use, has exacerbated this problem, making it easier for consumers to buy more while investing less in quality or longevity.² However, in recent years, there has been a notable shift towards sustainable fashion, driven in part by changes in consumer values.³ As people become more conscious of the environmental and social impact of their purchases, second-hand shopping and sustainable sourcing are gaining momentum.⁴

Resale is a part of the secondhand market that includes more curated product assortments, often higher end or vintage items.⁵ These online retailers adhere to a “Peer-to-Peer Resale Model,” which is when a third-party builds and facilitates a marketplace for customers to buy and sell pre-owned pieces from each other.⁶ Examples of third-parties that operate under this business model include The RealReal, ThredUp, and Poshmark. Similar, but on a larger scale, are e-commerce companies, such as eBay, which sell a wide variety of new and used items. As the resale market grows, legal concerns are emerging relating to the authenticity of goods being resold and resale companies’ liability in facilitating the sale of counterfeit goods.⁷ When counterfeit goods are sold on these third-party platforms as being luxury goods, brands will not sue the individual sellers using the resale platform but instead the resale platform itself (i.e., The RealReal or Poshmark) as a mechanism to sell counterfeit goods.⁸ Due to the tension this has created between brands being resold and the resale platforms facilitating the sale of these goods, courts have been put in a position where they must determine to what extent resale platforms are liable when this matter does not fit neatly into the traditional aspects of trademark infringement.⁹

Another rising trend in the fashion industry is the practice of upcycling. Upcycling is when an individual, whether a professional or amateur designer, takes materials from a discarded

¹ Kirsi Niinimäki, Greg Peters, Helena Dahlbo, Patsy Perry, Timo Rissanen & Alison Gwilt, *The Environmental Price of Fast Fashion*, 1 NATURE REVIEWS EARTH & ENV'T 189 (2020).

² *What Is Fast Fashion?*, MCKINSEY & COMPANY (Dec. 7, 2023), https://www.mckinsey.com/featured-insights/mckinsey-explainers/what-is-fast-fashion#.

³ *ThredUp 2023 Resale Report*, THREDUP (Apr. 2023), https://cf-assets-tup.thredup.com/resale_report/2023/thredUP_2023_Resale%20Report.pdf (noting that U.S. consumers are embracing secondhand apparel amid economic uncertainty).

⁴ *Id.* (stating that the global secondhand apparel market is expected to grow three times faster on average than the global apparel market overall by 2027).

⁵ *Id.*

⁶ *Id.*

⁷ See *infra* notes 37–49 and accompanying text.

⁸ See, e.g., *Tiffany (NJ) Inc. v. eBay Inc.*, 576 F. Supp. 2d 463, 469 (S.D.N.Y. 2008) (claiming that eBay had an obligation to prevent the sale of counterfeits by third-party sellers on its website) *aff'd in part, rev'd in part sub nom.* *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 114 (2d Cir. 2010).

⁹ See *infra* notes 37–49 and accompanying text.

product and reuses those materials to create a new garment of higher value.¹⁰ This is distinct from recycling because the materials are directly transformed into new garments without first being processed into basic materials or degraded.¹¹ While the idea of upcycling itself is not new,¹² there are growing legal concerns surrounding the practice of taking another's trademarked pieces and reusing them in a new product for sale.¹³ Namely, these concerns are harms linked to trademark infringement that include: (1) post-sale confusion, where consumers, believing that an upcycled good containing pieces from a brand is a product of that brand, are disappointed in the quality of the upcycled good and lose trust in the brand; (2) brand dilution, where the market is flooded with products appearing to come from one brand and that brand's exclusive image is diminished; and (3) diversion of sales, where sales that would have gone to the brand owner are taken by the makers of upcycled goods using the brand's trademarked materials.¹⁴

BACKGROUND

I. WHAT IS A TRADEMARK

A trademark is any word, name, symbol, device, or any combination thereof, that is used by a person or company to identify their goods, distinguish them, and indicate the source of goods.¹⁵ In order to qualify as a valid trademark, a mark must be distinctive, nonfunctional, and used in commerce.¹⁶ When a mark immediately identifies a unique source, it is inherently distinctive, and can be protected.¹⁷ For terms that are not inherently distinctive, the Lanham Act¹⁸ requires that a mark has a secondary meaning in the market.¹⁹ Trademarks help consumers identify the source of a product and distinguish between different brands' goods.²⁰ Additionally, trademarks help brands protect their reputation with buyers.²¹

¹⁰ Esmée Blaazer, *Making Something New from Something Existing Is 'In': This Is Upcycling*, FASHIONUNITED, Jan. 8, 2024, <https://fashionunited.com/news/background/making-something-new-from-something-existing-is-in-this-is-upcycling/2024010857698>.

¹¹ Blaazer, *supra* note 10.

¹² See Blaazer, *supra* note 10 (remarking that “repurposing is as old ‘as the road to Rome’”).

¹³ Eda Stark, *The Implications of Upcycled Products for Brand and Trademark Owners*, IPWATCHDOG, Jun. 27, 2023, <https://ipwatchdog.com/2023/06/27/implications-upcycled-products-brand-trademark-owners/id=162671/>.

¹⁴ Stark, *supra* note 13.

¹⁵ 15 U.S.C. § 1127.

¹⁶ *Id.*

¹⁷ PETER S. MENELL, MARK A. LEMLEY, ROBERT P. MERGES, & SHYAMKRISHNA BALGANESH, *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE: 2023, VOLUME II: COPYRIGHTS, TRADEMARKS AND STATE IP PROTECTIONS* 943 (2023).

¹⁸ See *infra* Section II.

¹⁹ MENELL ET AL., *supra* note 17, at 944.

²⁰ *Id.* at 943.

²¹ See *id.* at 935 (noting that trademark protections incentivize brands in the marketplace to monitor the use of marks and advertising claims of competitors).

II. THE LANHAM ACT

The Lanham Act is the primary federal statute governing trademark law in the United States.²² Enacted in 1946, its primary purpose is to protect consumers from confusion or deception in the marketplace and to safeguard the goodwill associated with trademarks. The Lanham Act makes it illegal to use a trademark that is likely to cause confusion with a registered mark.²³ However, the Lanham Act has inadvertently delegated issues of infringement to federal courts, which ultimately interpret the statute on a case-by-case basis.²⁴ Because of this, courts have relied on policy- and principle-based considerations in their interpretations.²⁵

III. TRADEMARK INFRINGEMENT

Trademark infringement occurs when the unauthorized use of a registered mark is likely to cause confusion for consumers as to the source of goods.²⁶ Under the Lanham Act, a defendant is liable for infringement when they create a likelihood of confusion,²⁷ create a likelihood of dilution,²⁸ cybersquat,²⁹ or engage in false advertising.³⁰ Courts consider a variety of factors to determine if unauthorized use of a mark is likely to confuse consumers, including the degree of similarity between the marks used by the parties, the degree of similarity between the parties' goods, whether the defendant intended to deceive the public, and whether there was actual confusion.³¹

Although liability for contributory infringement is not explicitly enforced by the Lanham Act, the Supreme Court has recognized that a party can be contributorily liable if it “continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.”³² Contributory trademark infringement uses the “knows or has reason to know” standard.³³ For example, an e-commerce or resale platform must have some awareness that their platform is contributing to trademark infringement to be held liable.³⁴ The “knows or has reason to know” standard exceeds general knowledge; the e-commerce or resale platform must have some contemporary knowledge of which particular listings are infringing or will infringe on a

²² 15 U.S.C. § 1051, *et seq.*

²³ *Id.* § 1114.

²⁴ MENELL ET AL., *supra* note 17, at 932.

²⁵ *Id.* These policy- and principle-based considerations are often derived from trademark theories such as protecting consumers from deception and the economic and reputational impact of unfair competition on brands. *Id.* at 933–34.

²⁶ 15 U.S.C. § 1114.

²⁷ *Id.* (registered marks); § 1125(a)(1) (registered or unregistered marks).

²⁸ *Id.* § 1125(c).

²⁹ *Id.* § 1125(d).

³⁰ *Id.* § 1125(a)(1).

³¹ CHRISTOPHER T. ZIRPOLI, CONG. RSCH. SERV., IF12456, AN INTRODUCTION TO TRADEMARK LAW IN THE UNITED STATES (2023).

³² *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 855 (1982).

³³ *Id.* at 854.

³⁴ *Tiffany (NJ) Inc.*, 600 F.3d at 107.

trademark in the future.³⁵ If the lack of knowledge, and thus the lack of response, is due to willful blindness to infringement (i.e., suspecting wrongdoing and failing to investigate), the e-commerce or resale platform can be held liable for contributory trademark infringement.³⁶

DEVELOPING CASE LAW

Applying the principles of trademark law discussed above to the resale and upcycling of luxury goods, the cases featured below introduce the legal issues arising out of this novel industry and the questions courts will have to grapple with. In the context of resale, this is determining the liability of e-commerce or resale platforms in the sale of counterfeit goods. In the context of upcycling, the issue is often narrowly focused on whether the upcycling designer sufficiently disclosed that the upcycled piece utilizing trademarked pieces was not the product of the original trademark holder to avoid consumer confusion.

I. RESALE

In *Tiffany (NJ) Inc. v. eBay Inc.*, Tiffany sued eBay for direct and contributory trademark infringement and dilution, among other claims, stating that eBay facilitated and allowed counterfeit Tiffany products to be sold on its website.³⁷ While Tiffany did not dispute that third-party sellers were responsible for listing and selling counterfeit Tiffany items, Tiffany claimed that eBay had the obligation to monitor its website for counterfeits and prevent the sale of those counterfeit goods. The district court determined that eBay's alleged facilitating and advertising the sale of Tiffany goods that turned out to be counterfeit did not constitute direct and contributory trademark infringement, trademark dilution, and false advertising.³⁸ The court further stated that it was inevitable that there would be counterfeit goods and eBay cannot verify or block sellers until a customer complains.³⁹ Additionally, the court noted that eBay took sufficient measures to prevent the consumer deception, including warnings for consumers buying Tiffany products, cancelling transactions of counterfeit goods, removing thousands of sellers each year through a "fraud engine."⁴⁰ Because of these measures, the court determined that eBay had acted reasonably in addressing any specific infringement they were aware of.⁴¹ On appeal, the court affirmed the judgment of the district court with respect to the claims of trademark infringement and dilution and remanded Tiffany's false advertising claim.⁴²

³⁵ *Id.*

³⁶ *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992).

³⁷ *Tiffany (NJ) Inc.*, 576 F. Supp. 2d at 469.

³⁸ *Id.* at 527.

³⁹ *Id.* at 510.

⁴⁰ *Id.* at 515.

⁴¹ *Id.* at 514 ("While Tiffany may have been dissatisfied with the efficacy or volume of [eBay's precautions] . . . it cannot be said that eBay failed to make reasonable inquiries or to take further steps to pursue counterfeiters.").

⁴² *Tiffany (NJ) Inc.*, 600 F.3d at 114.

More recently, Chanel has brought lawsuits against various resale platforms that specialize in selling luxury secondhand clothing.⁴³ In their lawsuits, Chanel noted that both companies advertised counterfeit Chanel products as authentic, despite the products being of different quality from Chanel's genuine products and containing serial numbers that did not correspond to serial numbers designated by Chanel.⁴⁴ The difference between these platforms and the eBay lawsuits are that the resale platforms are advertising the authenticity of the luxury items and have an established reputation of selling luxury goods that are authenticated by the platform itself before the sale occurs.⁴⁵ While these platforms are on a smaller scale than eBay, customers pay more with the guarantee that what the products they are purchasing are authentic designer pieces.⁴⁶ This raises more questions of whether an e-commerce or resale platform increases their contributory liability in the sale of counterfeit goods if they claim that the goods are authenticated.⁴⁷

II. UPCYCLING

In *Hamilton Int'l Ltd. v. Vortic LLC*,⁴⁸ Plaintiff Hamilton International Ltd. ("Hamilton") sued Vortic Watch Co. ("Vortic") for trademark infringement where Vortic manufactured and sold "The Lancaster" watches, which contain antique Hamilton watch parts alongside parts made by Vortic.⁴⁹ The only element of trademark infringement that was in dispute was the element of likelihood of confusion.⁵⁰ The District Court held in favor of Vortic and applied both the *Polaroid* multifactor test and the *Champion* consumer confusion standard.⁵¹

The *Polaroid* multifactor test requires courts to consider eight non-exhaustive factors in determining whether there is a probability that numerous ordinary prudent consumers would be confused as to the origins of the product at issue, which are:

"[1] the strength of [the plaintiff's] mark, [2] the degree of similarity between the two marks, [3] the proximity of the products, [4] the likelihood that the prior owner will bridge the gap, [5] actual confusion, and [6] the reciprocal of defendant's good faith in adopting

⁴³ *E.g.*, *Chanel, Inc. v. WGACA, LLC*, 18 Civ. 2253 (LLS), 2022 WL 902931 (S.D.N.Y. Mar. 28, 2022); *Chanel, Inc. v. The RealReal, Inc.*, 449 F. Supp. 3d 422 (S.D.N.Y. 2020).

⁴⁴ *WGACA, LLC*, 2022 WL 902931, at *3; *The RealReal, Inc.*, 449 F. Supp. 3d at 433.

⁴⁵ *WGACA, LLC*, 2022 WL 902931, at *2 (advertising on its website that WGACA "guarantees the authenticity of all products sold."); *The RealReal, Inc.*, 449 F. Supp. 3d at 429 (representing itself as "the world's largest online marketplace for authenticated, consigned luxury goods.").

⁴⁶ *The RealReal, Inc.*, 449 F. Supp. 3d at 448 (stating that consumers who purchase counterfeits from The RealReal are especially financially harmed because luxury products "command top-dollar prices," are produced in "limited number," and are not generally accessible to the public).

⁴⁷ *See Chanel, Inc. v. WGACA, LLC*, 2022 WL 902931, at *20 (finding that WGACA acted with "reckless disregard" because they were ensuring authenticity which was not true).

⁴⁸ 486 F. Supp. 3d 657 (S.D.N.Y. 2020), *aff'd*, 13 F.4th 264 (2d Cir. 2021).

⁴⁹ *Hamilton Int'l Ltd.*, 486 F. Supp. 3d at 660.

⁵⁰ *Id.* at 661.

⁵¹ *Id.*

its own mark, [7] the quality of defendant's product, and [8] the sophistication of the buyers” as relevant variables.”⁵²

In this case, where the product at issue is a modified authentic article, the court held that the most dispositive factor is “whether the defendant adequately disclosed the origins of the product.”⁵³ As a result, the court focused on applying the *Champion* consumer confusion standard.⁵⁴

The *Champion* consumer confusion standard states that a defendant who fully discloses the origin of the modified products with conspicuous markings has satisfied their obligation to the plaintiff.⁵⁵ Because “The Lancaster’s” advertising and engraved Vortic markings on the watches were so prominent, an ordinary prudent consumer would have full disclosure that Vortic only used Hamilton pieces in making “The Lancaster” watches, and would be unlikely to be confused about the watches’ origin.⁵⁶ The Second Circuit affirmed, finding no clear error in the District Court’s factual findings or legal analysis.⁵⁷

In *Chanel, Inc. v. Shiver and Duke, LLC*,⁵⁸ Plaintiff Chanel, Inc. (“Chanel”) sued Defendant Shiver and Duke, LLC (“S+D”) for trademark infringement where S+D took buttons with Chanel’s CC logo and upcycled them into necklaces, earrings, and bracelets.⁵⁹ After receiving a cease and desist letter from Chanel before litigation commenced, S+D made only minor changes to its packaging, including placing a small “S+D” mark on the back of the earrings and including the words “reworked” and “reimagined” on the packaging.⁶⁰ The parties settled, with S+D agreeing to cease selling jewelry using upcycled Chanel buttons.⁶¹

In *Louis Vuitton Malletier S.A.S. v. Sandra Ling Designs, Inc.*,⁶² Plaintiff Louis Vuitton Malletier S.A.S. (“LV”) sued Defendant Sandra Ling Designs, Inc. (“Sandra Ling”) for trademark infringement where Sandra Ling created upcycled apparel, jewelry, and handbags using customized pieces of leather bearing LV trademarks.⁶³ Sandra Ling filed an offer of judgment that was accepted by LV, which stipulated no liability or damages, but the parties agreed to a permanent injunction against creating and selling more upcycled products using LV trademarked materials and that Sandra Ling would pay LV \$603,000.⁶⁴

⁵² *Id.* at 661–62 (quoting *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492 (2d Cir. 1961)).

⁵³ *Id.* at 662.

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ *Hamilton Int’l Ltd. v. Vortic Watch Co.*, 13 F.4th 264, 279 (2d Cir. 2021).

⁵⁸ No. 1:21-cv-01277-MKV (S.D.N.Y. Nov. 29, 2022).

⁵⁹ Compl. ¶ 1, *Chanel, Inc. v. Shiver and Duke, LLC*, No. 1:21-cv-01277-MKV (S.D.N.Y. Feb. 12, 2021).

⁶⁰ *Id.* ¶ 30.

⁶¹ *Chanel, Inc. v. Shiver and Duke, LLC*, No. 1:21-cv-01277-MKV (S.D.N.Y. Nov. 29, 2022).

⁶² No. 4:21-CV-00352, 2021 WL 3742024, at *1 (S.D. Tex. Dec. 1, 2022).

⁶³ *Id.* at *1.

⁶⁴ Stark, *supra* note 13.

III. THE SHOP SAFE ACT

This case law has led to the introduction of legislation to regulate these unprecedented areas of trademark infringement. In May 2021, the Stopping Harmful Offers on Platforms by Screening Against Fakes in E-commerce Act or SHOP SAFE Act was introduced in the Senate.⁶⁵ This Act would make e-commerce and resale platforms contributorily liable if a third-party seller uses a counterfeit mark in connection with selling, offering, or advertising such goods on the platform.⁶⁶ These e-commerce platforms can avoid liability if they take actions to mitigate this harm, including requiring third-party sellers to have a registered agent or a verified address for service of process in the United States, verifying third-party sellers' identities, requiring third-party sellers to agree to not use counterfeit marks with goods sold on the platform, implementing measures to prescreen listings on the platform and remove listings for goods being sold with a counterfeit mark, and implementing policies to remove and ban repeat offenders.⁶⁷

CONCLUSION

With the increase and sophistication of counterfeit goods, it is difficult for platforms to eliminate all listings of goods sold with counterfeit marks. The guidelines suggested by Congress and courts' decisions in the above discussed cases bring forth the question: how does a platform know their liability? In the resale market, there is a spectrum between eBay and The RealReal—platforms that sell all sorts of goods versus those that exclusively sell luxury goods. Does a platform that guarantees authenticity open itself up to liability for contributory trademark infringement when counterfeit products are found on their platform?

On the upcycling side, there are several outstanding questions waiting to be answered in the future. If a person takes a broken Rolex watch and replaces broken parts on the inside or outside of the watch with non-Rolex parts, but the watch still looks like a Rolex, can Rolex sue the watch repairer for trademark infringement? How does this square with the right to repair and the first sale doctrine? Do brand owners have the right to say no to third party repair and demand their customers only use Rolex parts? What about cases where a customer upcycles not to fix or repair a damaged product, but to customize it? For example, a consumer covers their Birkenstocks with Louis Vuitton patterns, is this infringement?

⁶⁵ S. 1843, 117th Cong. § (2021).

⁶⁶ *Id.*

⁶⁷ *Id.*