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Southern District of New York Revisits Tiffany v. eBay in Chanel's Lawsuit Against The RealReal

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In a high-profile trademark infringement and counterfeiting showdown between Chanel and The RealReal, Judge Vernon S. Broderick of the Southern District of New York recently issued a decision on The RealReal's motion to dismiss that is notable in several respects. As discussed below, the decision takes a narrow view of the Second Circuit's decision in *Tiffany v. eBay*, affording less protection to some online marketplaces than others. In addition, the decision provides a helpful reminder of how courts in the Second Circuit apply the nominative fair use doctrine.

Background

The RealReal is an online and brick-and-mortar luxury consignment retailer. It sells consigned handbags, jewelry, and clothing (among other items) from various popular high-end fashion brands, including Chanel.

This dispute arose from The RealReal's use of the CHANEL trademark in connection with its resale of Chanel-branded goods. In its First Amended Complaint, Chanel alleged that The RealReal's use of the CHANEL mark on its website, in advertising materials, and in its brick-and-mortar stores to advertise the availability of Chanel products constitutes trademark infringement. In addition, Chanel alleged that some of the Chanel-branded goods The RealReal has sold are counterfeit. As such, Chanel claimed that The RealReal's advertising claims that its goods are genuine (including claims that its goods are "100% the real thing," "100% authenticated," and authenticated by in-house "experts") constitute false advertising.

The RealReal moved to dismiss the First Amended Complaint in its entirety.

The Court's Decision

As described above, the three main issues in this case involve false advertising, trademark infringement, and counterfeiting. This client alert focuses on the Court's decision as to trademark infringement and counterfeiting. As discussed in a post on Proskauer's false advertising blog, the Court denied The RealReal's motion to dismiss Chanel's false advertising claim because Chanel had plausibly alleged that, contrary to The RealReal's promise of 100% authenticity, a number of Chanel products sold by The RealReal were in fact counterfeit.

Counterfeiting

Chanel's counterfeiting claim was premised on The RealReal's resale of counterfeit Chanel products. In its motion to dismiss, The RealReal had argued that, as a marketplace, its liability for the sale of counterfeit products was foreclosed by the Second Circuit's decision in *Tiffany (NJ) Inc. v. eBay Inc.* In *Tiffany v. eBay*, the Court found that where eBay had knowledge that counterfeit Tiffany goods were offered by sellers on its website, this did not establish a basis for a claim of direct trademark infringement or counterfeiting against eBay – especially inasmuch as eBay removed the offending listings and took steps to identify and remove illegitimate Tiffany goods. The RealReal pointed out that, just like eBay, it takes measures to prevent the sale of counterfeit goods.

The Court rejected The RealReal's attempt to analogize to *Tiffany v. eBay*, finding that The RealReal's business model differs from eBay's in significant respects. The Court noted that eBay serves as nothing more than a sales platform; while third party vendors may use eBay as a forum in which to sell counterfeit goods, eBay is not actually involved in any aspect of the sale. By contrast, The RealReal is heavily involved in the sale of the consignment items offered on its website and in its stores. Notably, the RealReal has sole discretion to approve products for sale and over the price, display and marketing for the goods. Further, the Court noted that although The RealReal does not take title to the merchandise it sells, it takes physical possession and maintains an inventory of the merchandise. With eBay, on the other hand, sales occur directly between third party vendors and customers.

The Court found that these differences between eBay and The RealReal are significant because The RealReal's business model allows it to obtain a substantial benefit from controlling the secondary market and curating the products offered for sale. In exchange for this benefit, the Court determined that The RealReal must also shoulder the responsibility of potential liability stemming from the sale of the goods in the market The RealReal created. Having found *Tiffany v. eBay* to be inapposite, the Court held that Chanel had stated a claim for counterfeiting.

The Court's decision is significant because *Tiffany v. eBay* had previously been understood to broadly protect online marketplaces from direct liability for the sale of counterfeit goods provided by third parties so long as the marketplace took sufficient precautions to mitigate the sale of such goods. This decision takes a narrow view of *Tiffany v. eBay*, concluding that not all secondary retailers should be treated the same. As online retail continues to increase in popularity over brick-and-mortar stores, this decision could have major implications for existing online marketplaces such as Amazon and other companies looking to transition into similar business models, particularly to the extent such retailers take possession of the goods being sold and exercise control over how the goods are marketed and priced.

Trademark Infringement

In addition to its counterfeiting claim, Chanel also alleged that The RealReal infringed the CHANEL trademark by using it to sell authentic Chanel products. The Court dismissed this claim, holding that The RealReal's use of the CHANEL mark for that purpose constitutes nominative fair use. As the Court explained, the doctrine of nominative fair use recognizes that the Lanham Act "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."

In its nominative fair use analysis, the Court began by applying the relevant *Polaroid* factors and concluded that The RealReal's use of the CHANEL mark in connection with its sale of Chanel-branded goods would not result in a likelihood of confusion as to source or origin, or create a false impression of affiliation. Applying the first *Polaroid* factor, the Court observed that Chanel's marks are incredibly well-known, recognizable, and prevalent in the luxury fashion market. Second, as Chanel stated in its First Amended Complaint, Chanel does not sell secondhand or vintage goods, while The RealReal only sells secondhand or vintage goods. The Court further observed that even though The RealReal's sale of Chanel products in the secondary market may compete with Chanel's primary market offerings, Chanel itself recognized in its First Amended Complaint that the secondary fashion market bolsters primary markets. Third, the Court noted that there was no evidence of actual consumer confusion or bad faith. Lastly, the Court determined that the luxury fashion market is relatively sophisticated, such that the relevant consumers are unlikely to be confused.

Having found little likelihood of confusion based on its analysis of the *Polaroid* factors, the Court then turned to the second and third nominative fair use factors outlined in *International Information Systems v. Security University, LLC*, 823 F.3d 153 (2d Cir. 2016). As to the second nominative fair use factor, the Court found that The RealReal had not used Chanel's marks "too prominently or too often, in terms of size, emphasis, or repetition." While The RealReal has an entire page dedicated to describing Chanel and advertising Chanel-branded goods, the Court noted that it also has entire pages dedicated to nine other luxury fashion brands. The Court therefore found that The RealReal does not advertise Chanel goods any more prominently or often than it does other brands, and that The RealReal does not use Chanel's trademarks in any capacity other than to identify Chanel-branded products as Chanel.

As to the third nominative fair use factor, the Court determined that Chanel's pleading offered no non-conclusory allegations to suggest that The RealReal inaccurately depicts its relationship with Chanel or Chanel's products. The Court concluded on factor three that even though The RealReal's general assurances of authenticity may suggest to a consumer that Chanel had endorsed the products, these general assurances, without more, are insufficient to demonstrate a likelihood of consumer confusion. The Court emphasized that this was especially true given that The RealReal provides a disclosure clarifying that the brands identified on its site are not involved in the authentication of the products being sold.

Having determined that Chanel had not plausibly alleged (1) a likelihood of confusion, (2) that The RealReal uses Chanel's mark in excess of what was necessary to identify Chanel-branded goods, or (3) that The RealReal inaccurately depicts its relationship with Chanel, the Court held that The RealReal's use of the CHANEL mark amounted to nominative fair use as a matter of law. The Court therefore dismissed Chanel's trademark infringement claim.

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