

## Lights & Shadows of “Second-hand” Market and Upcycling: A Clever Way to Minimize Fast Fashion Environmental Impact?

Significant carbon dioxide emissions, important water consumption, the use of polluting dyes and the production of tons of waste: the fashion system needs to rethink its business model. Consumers, particularly younger generations, are becoming increasingly aware of the environmental impact of fast fashion and are demanding that brands undertake effective and measurable sustainability commitments (Law, 2020).

Moreover, legislators are increasingly enacting legal frameworks to enhance the circular economy. France, for example, is at the forefront in providing for Extended Producer Responsibility (EPR) in the fashion sector. In addition to adopting the Eco TLC scheme, which requires companies to pay an economic contribution per item placed on the market, in February 2020 France adopted Law No. 2020-105 on Circular Economy and Fight Against Waste, which bans the disposal (*i.e.*, landfilling/incineration) of any unsold non-food products, such as clothing, shoes, beauty products, books and consumer electronics (Legifrance, 2020).

### **Ethical Fashion Industry and the Not-so-new World of Second-hand**

The fashion secondary market is not a taboo anymore and, indeed, has been the main ally in the fight against fashion waste for some time now, representing a “green choice” that a growing number of people want to embrace. According to the Circular Fashion Report 2020, the circular fashion market has a potential value of US\$5 trillion, 63% more than the traditional fashion industry (Summit, 2020). Furthermore, according to research done by the Boston Consulting Group and *Vestiaire Collective*, the second-hand clothing market could grow by 15-20% within five years, while 31% of those surveyed say they already resell clothes they no longer use through second-hand shops or dedicated apps (such as Vinted, Depop, Vestiaire Collective itself, Subito or eBay) (BCG, 2020).

Although buying second-hand products is nothing new, what has changed is the way that brands and customers approach it. Before digitalisation, second-hand sales involved a careful search to find the shop with the best products while with digital platforms the access to “pre-loved” items is potentially open to anyone, anywhere with a simple click.

## The “Dark” Side of the Second-hand Market

Not everything is 100% rosy and the second-hand market is not the exception. Second-hand sales’ opportunities allow consumers to profit from years of serial accumulation and the recent trend of uncluttering; on the other hand, for brands, especially luxury brands, this could mean yet another battle in the counterfeiting war. In an industry in which exclusivity is everything, **authenticity** is a hot topic.

Counterfeiting represents a direct detriment to a brand’s image, its strength and value, and its corporate reputation. It can also result in a dilution of the brand on the market, a reduction in the reliability and trivialisation of its exclusivity and a disaffection of the customer (Pastore, 2019). The counterfeiting battle is an expensive one: *ex ante*, for the defense and legal protection of trademarks and corporate assets (registration of trademarks, designs, patents, internet domains) and the monitoring of the market, both real and virtual; and *ex post*, for investigations, expert opinions, judicial, civil and criminal proceedings, and legal enforcement (Pastore, 2019).

On the other hand, without direct control of the purchase channel by the brand, the chances of consumers buying second-hand counterfeit products increase significantly as the normal wear and tear might blur the line between original and counterfeit products.

### What Can Brand Owners Do?

At a strategic level, the fashion world is divided in two: those who play offense and those who play defense.

#### a. Those who play offense

The all-star dream team includes players such as LVMH, Prada and Cartier. In an attempt to defend themselves from counterfeiting, they have recently launched the Aura Blockchain Consortium, a non-profit organisation that enables consumers to access product history and authenticity through a unique certificate for each owner, generated through the use of private multi-nodal blockchain technology. The technology consortium is open to all luxury brands worldwide and aims to create an unprecedented cooperation to protect the authenticity of the entire luxury fashion industry (Maddalena, 2021).

Moreover, several other fashion brands are marking their products with a smart tag in Near Field Communication (NFC), QR code or alphanumeric format. Scanning the tag or entering the code online triggers an analysis by artificial intelligence that can identify in real time tags that have been invented or cloned by a counterfeiter and, within seconds, consumers have confirmation that the product is genuine or fake, while brands can monitor their diffusion (Fashion, 2020). Thanks to the development of these “smart labels,” counterfeiting may finally be destined, if not to disappear, at least to

significantly decline. However, these solutions are still not widespread and are not yet sufficient to solve a problem that is more topical than ever.

i. Chanel and The RealReal (TRR)

Recently, after nearly two and a half years of legal battles, Chanel and the platform TRR have requested and obtained the temporary suspension for three months of their legal proceedings. On November 14, 2018, Chanel filed a complaint against TRR in federal court in New York, alleging among other things that TRR sold counterfeit Chanel products, in violation of § 32(1) of the Lanham Act, and deceived customers into believing that TRR has approval from or association or affiliation with Chanel. Chanel also alleged that TRR infringed upon Chanel's exclusive trademark by using the Chanel trademark for use in advertising and marketing, in violation of § 32(1) of the Lanham Act (Review, 2020). The US resale portal, in addition to rejecting the accusations, defended itself by declaring in summary that Chanel is attempting to stop the circular economy (*id.*).

Whether the parties will be able to come to an amicable agreement remains to be seen, but this is just one of many cases showing that the coexistence of the luxury and resale platforms is extremely tenuous.

b. Those who play defense

In the hopes of helping to achieve the ideal of an ethical fashion industry, certain brands have decided to cooperate with the digital platforms, establishing new resale channels through them. They have opted to embrace and internalise the second-hand business model to regain control of their own resale network, reach a new target group of consumers, and secure a further share of profits, possibly minimal. Among the brands that have actively sought out resale sites for partnership opportunities are Madewell with thredUP, Alexander McQueen with Vestiaire Collective, and Gucci, Stella McCartney and Burberry with TRR.

At a time when fast fashion environmental impact is not hidden anymore and consumers, especially Generation Z (*i.e.*, those born between the mid-1990s and 2010), are calling for companies to be increasingly sustainable, this type of partnership can be particularly effective. First and foremost, it allows considerable savings in terms of emissions and water waste. In this regard, TRR and Gucci communicated their collaboration through a press release stating that “[t]o date, consignment of women’s and men’s Gucci clothing on The RealReal has saved 230 metric tons of carbon and 10+ million liters of water, as compared to the environmental costs of manufacturing those items for the first time” (The RealReal, 2020).

Secondly, it allows brands to dispose of - and earn money from - **unsold stock**, which would otherwise become waste that is difficult or possibly more costly to recycle. The

latest case in point is the partnership between 3.1 Phillip Lim and the reseller TRR. This collaboration allows the brand to sell unsold items from previous collections online at reduced prices - unsold items which are often simply caused by a market that is just “too fast” (Roshitsh, 2020).

Amongst those brands that have decided to internalise second-hand products’ resale is Nike who, in April of this year, announced that it would start reselling returned trainers as part of the Nike Refurbished programme. These initiatives are small steps, yet indicators of a huge change considering that for decades the company’s policy was not to acknowledge Nike’s presence in the resale market (Planet Tracker, 2021). Other brands such as Levi’s and COS (H&M group) have also launched their own resale sites, which are particularly attractive to the public, because they replicate the layout of the official sites, thus reflecting a more typical online experience for the consumer. More and more technology companies, such as Reflaunt, are exploiting this trend by offering resale-as-a-service (RaaS) for brands and retailers to take advantage of resale or recycling mechanisms on their e-commerce platforms (*id.*).

Finally, in an effort to reduce waste, several start-ups are helping brands sell their waste materials - *i.e.*, fabric that has never been made into clothing. Companies such as Queen of Raw and AmoThreads have created marketplaces that have become a reference point for brands wishing to resell what would otherwise have been disposed of at a high cost (Olivieri, 2021).

## Second-hand and the Law

What can the owner (or licensee) of a trademark do if an unauthorised third party resells products bearing its trademark on an online platform?

Article 9, par. 3 of Regulation (EU) 2007/1001 and Article 5 of the Italian Industrial Property Code (Legislative Decree No. 30 of 10 February 2005, “IPC”) lay down the general principle of “exhaustion” of industrial property rights.

With regard to trademarks, this principle represents a limit to the exclusivity granted to the trademark owner: the exclusive right is exhausted after the goods bearing the mark have been put on the market by the owner - or with its consent (*e.g.*, by the licensee) - in the territory of the State or in the territory of a Member State of the European Community or the European Economic Area. The exclusivity is therefore limited to the first act of placing in the marketplace, whereas no exclusivity may subsequently be claimed by the trademark owner of the exclusive right on the circulation of the product bearing the mark (Locatelli, V. 2017). The principle of trademark exhaustion does not, however, apply if “*there are legitimate reasons for the trademark owner himself to oppose further commercialisation of the goods, in particular when their condition is changed or altered after they have been put on the market*” (*cfr.* Art. 5, par. 2 IPC).

The European Court of Justice, in its judgment C-567/18 of April 2, 2020, indirectly confirmed that platforms participating in the distribution of, or direct resale of, products infringing intellectual property rights are directly liable for such infringements (Curia, 2020).

EU case law has confirmed that the existence of a selective distribution network, typically adopted by the fashion world, especially for fragrances and jewelry, may be included among the “*legitimate reasons*” preventing exhaustion, provided that the product marketed is a luxury or prestige article that justifies the choice to adopt such a selective distribution system (Curia, 2009).

If there are such legitimate reasons, to be assessed on a case-by-case basis, the resale of goods bearing the trademark may thus become a trademark infringement. This is what the Court of Milan decided in a 2020 interlocutory order.<sup>1</sup>

### **Conclusion: Compliance with ESG Laws**

The Covid-19 crisis hit the fashion industry hard, making it clear that change cannot be postponed and that an ethical fashion industry is imperative. With the growing awareness of this industry’s catastrophic effects on the environment, the advance of the second-hand business is inevitable. Brands will have to learn to coexist with their own secondary market and while being in compliance with ESG laws. Certain brands are voluntarily investing in a sustainable supply chain, sourcing and upcycling. As second-hand market and end-waste policies are closely entwined, a growing European and national regulatory framework will shape brands’ business models and their original creativity.

Curtis is here to assist you in responding to this new challenge.

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<sup>1</sup> Beauté prestige international S.A., Shiseido Europe S.A. and Shiseido Italy S.p.A. v. Amazon Europe Core S.a.r.l., Amazon EU S.a.r.l., Amazon Services Europe S.a.r.l. Court of Milan, interlocutory order dated 19 October 2020.

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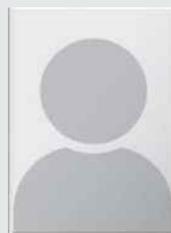
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