The First Sale Doctrine and Establishing Legal Claims to Overcome It

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Manufacturers Can Create Material Difference and Quality Controls

Manufacturers often look to trademark law to stop unauthorized online sales of their products. However, online resellers are typically immune from any liability for selling genuine trademark products. This is due to what is known as the **First Sale Doctrine**, described below.

Therefore, manufacturers should work to create a foundation for legal claims in order to *overcome* this popular defense.

A Brief Overview

Many manufacturers contract with authorized sellers to help control distribution of their products. They can hold the authorized distributors accountable through, among other things, potential breach of contract claims.

However, manufacturers do not have such recourse against the unauthorized sellers who obtain their products and resell them online. Further, many of the unauthorized sellers benefit from the aforementioned **First Sale Doctrine**.

The **First Sale Doctrine** generally provides that someone who purchases a trademarked product acquires the right to resell that same product.[1] Stated differently, someone who buys a product usually can resell that product online, without incurring any liability.

Fortunately, for manufacturers, there are exceptions to the **First Sale Doctrine**. These exceptions are significant, as they can serve as the basis for manufacturers being able to stop widespread unauthorized sales.

The "Material Difference" Exception

Resellers are not immune from trademark liability when they offer "trademarked goods that are materially different than those sold by the trademark holder."[2] Thus, based on this "material difference" exception, manufacturers can work to distinguish their genuine products from the diverted goods sold outside the authorized distribution channels.

The Eleventh Circuit defines a material difference as "one that consumers consider relevant to a decision about whether to purchase a product."[3] Thus, to limit consumer confusion, courts have held that "the threshold of materiality must be kept low."[4]

Moreover, courts have established that only a single material difference is necessary to give rise to trademark infringement. Further, a material difference does not even have to be "physical" to give rise to a trademark infringement claim.

One example of a material difference is a difference in warranty, guarantee or return policy. For example, many manufacturers use language indicating that warranties only apply to purchases through authorized channels. Thus, a non-genuine product not subject to the same warranty as a genuine product constitutes a material difference.

Material differences can also include an absence (on a reseller's part) of certain offerings of customer service and repairs; certain promotions, discounts or other programs; or certain post-sale services

Quality Controls Exception

A manufacturer's product is not considered truly "genuine" unless it is manufactured and distributed under quality controls established by the manufacturer.[5] Thus, courts have held that trademark holders have the right to control the quality of their distribution. In other words, unauthorized resellers who do not follow a manufacturer's quality controls can be liable for trademark infringement.[6]

There are a number of potential quality controls that a manufacturer can implement. For example, this list includes certain policies or practices for:

- vetting potential retailers;
- checking on/monitoring authorized sellers to ensure compliance;
- retailers removing (from the internet) or returning damaged/defective products;
- prohibiting anonymous online sales;
- product recalls;
- reporting customer complaints; and
- storage conditions.

A manufacturer generally needs only one or two quality controls. And it should implement only what makes sense for its particular business. Furthermore, in implementing quality control procedures and policies, manufacturers must ensure they are "legitimate, substantial, and non-pretextual quality control

standards," and they must actually "abide[] by these procedures" in the course of their business."[7]

By establishing potential material differences and certain quality controls (and enforcing them), manufacturers can potentially overcome the **First Sale Doctrine**. In other words, manufacturers can (and should) position themselves to have strong legal claims (i.e. trademark infringement claims). This is critical to effectively working to stop product diversion and limit the effects of unauthorized online sales.

[1] *See, e.g.*, *Sebastian Int'l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1074 (9th Circ. 1995) ("Resale by the first purchaser of the original article under the producer's trademark is neither trademark infringement not unfair competition.").

[2] *Beltronics USA, Inc. v. Midwest Inventory Distrib., LLC*, 562 F.3d 1067, 1072 (10th Cir. 2009) (quoting *Davidoff & CIE, S.A. v. PLD Int'l Corp.*, 263 F.3d 1297, 1302 (11th Cir. 2001)).

[3] *Davidoff & Cie, S.A. v. PLD Int'l Corp.*, 263 F.3d 1297, 1302 (11th Cir. 2001)

[4] *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 641 (1st Cir. 1992)

[5] *Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104, 107 (4th Cir. 1991)

[6] *See, e.g., Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104, 107 (4th Cir. 1991) ("A product is not truly 'genuine' unless it is manufactured and distributed under the quality controls established by the manufacturer").

[7] *Warner-Lambert Co. v. Northside Dev. Corp.*, 86 F.3d 3, 6 (2d Cir. 1996).