



Selective distribution of luxury products and exhaustion of trademark rights. Two recent decisions of the Court of Milan leading to different outcomes.

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📖 INTELLECTUAL PROPERTY, FASHION AND LUXURY

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The exclusive rights attaching to a trademark are exhausted once the products protected by the trademark have been put on the market by the owner or with his consent, in Italian territory, the EU or the European Economic Area, and the holder cannot prevent the further circulation of such products.

This is known as the exhaustion principle, as codified at both Italian and EU level (Article 5 of Italian Industrial Property Code and Article 15 of EU Regulation No. 1001/2017).

However, pursuant to the same provisions, exhaustion does not occur if there are legitimate grounds for the trademark owner to oppose the further circulation of the goods.

One of such “legitimate grounds” can be the existence of a selective distribution system, as defined under Article 1, letter e), of EU Regulation No. 330/2010: “a distribution system where the supplier undertakes to sell the contract goods or services, either directly or indirectly, only to distributors selected on the basis of specified criteria and where these distributors undertake not to sell such goods or services to unauthorised

distributors within the territory reserved by the supplier to operate that system”.

The existence of selective distribution prevents exhaustion only if certain conditions elaborated by European case law are fulfilled.

In order for a selective distribution system to comply with competition law, it must concern certain categories of products, like luxury goods (involving the need to remunerate large investments) or high-tech items (requiring specific assistance for the buyer). The mere existence of a legitimate selective distribution system is not enough, and it must be accompanied by an actual serious prejudice to the image of the trademark, due to the way in which the products are commercialized without the holder's consent by a third party invoking exhaustion.

Two decisions of the Court of Milan, respectively of 2016 and 2018, supply helpful guidance to assess when such conditions are – or are not – met, thus determining whether a selective distribution system prevents exhaustion.

Nashi-Nashi Argan (Court of Milan, 18.12.2018)

By this very recent decision, the Court of Milan adjudged an application for a preliminary injunction filed by Landoll Srl, a company manufacturing professional cosmetics marked NASHI / NASHI ARGAN and selling them through a selective distribution network.

The applicant successfully alleged trademark infringement and obtained an injunction against MECS Srl, which retailed these products through an e-commerce platform and its own website without Landoll's authorization.

The Court held that selective distribution amounted to a legitimate reason to prevent exhaustion. In particular, it found that i) the selective distribution system adopted by the trademark holder was legitimate (and compliant with competition law), and ii) the items bearing the trademarks were luxury products whose commercialization

outside the selective distribution system would cause actual harm to the luxury image of the NASHI / NASHI ARGAN brands.

As regards point i), Landoll's selective distribution system fulfilled the criteria set out by the Court of Justice 's 2017 *Coty* decision, whereby one such system for luxury goods “*designed, primarily, to preserve the luxury image of those goods*” complies with competition law “*to the extent that resellers are chosen on the basis of objective criteria of a qualitative nature that are laid down uniformly for all potential resellers and applied in a non-discriminatory fashion and that the criteria laid down do not go beyond what is necessary*” (CJEU, 06.12.2017, Case C-230/16, *Coty Germany GmbH*).

The Court found that the system was aimed at permitting the correct use of the Landoll products in relation to consumers' needs, by selecting and training professionally qualified personnel, thus contributing to preserve the image and prestige of those products. The qualitative criteria applied for selecting the authorized retailers were consistent with this premise, as well as uniformly applied to all potential resellers, in a non-discriminatory way and proportionately to the objective pursued.

Turning to point ii), while the prestige attaching to Landoll professional cosmetics (which was suitable to legitimate a selective distribution model) was not questioned, the decision developed significant arguments in relation to the assessment of the prejudice caused to the luxury image of the NASHI / NASHI ARGAN trademarks.

In the Court's view, the harm resulted from the way MECS presented the products to the public on the Internet, featuring them substantially in the same way as any other item of the sector, even of lower quality. Besides, the fact that the respondent did not assure any specific professional counseling on the proper use of the products was also considered at the source of prejudice.

Conversely, the defense put forward by MECS, revolving around its alleged good faith in commercializing the products and the existence of their widespread commercialization by third parties outside the selective distribution system, was dismissed. In fact, MECS' good faith allegation was turned down based on the circumstance that Landoll had sent them an appropriate cease and desist letter, while Landoll's supposed tolerance of commercialization by third parties was found contradicted by previous judicial actions documented by the applicant.

Chantecler (Court of Milan, 17.03.2016, overturning Court of Milan, 11.01.2016)

By contrast, this case on selective distribution adjudged by the Court of Milan in 2016 had an opposite outcome, and the Court's appellate Panel held unfulfilled the conditions required to derogate from the exhaustion principle.

The first instance decision (overturned by the Panel) had granted an application for preliminary injunction filed by Chantecler SpA, a company active in the jewelry sector and holder of the CHANTECLER trademark, against Gens Aurea SpA, who was reselling CHANTECLER products outside the applicant's exclusive distribution network, thus allegedly infringing its trademark rights.

The injunction was revoked because the Panel found that, independently of the existence of a selective distribution system, Chantecler had been unable to prove that the unauthorized sales carried out by Gens Aurea caused actual and serious harm to the CHANTECLER trademark.

In this regard, the Panel considered that Gens Aurea, who had purchased the products from an authorized reseller, retailed them inside a point of sale named "LUXURY ZONE", placed in a shopping center (called "Reggia Designer Outlet") that hosted shops of a number of renowned brands. Besides, the LUXURY ZONE point of sale

occupied a privileged position within the Luxury Area of the shopping center (side by side with other prestigious brands like Valentino, Prada and Cavalli) and offered other famous jewelry brands (like Damiani and Morellato). The CHANTECLER items were exhibited in spaces and storefronts found appropriate for high-end jewellery and not adversely affecting their CHANTECLER "aura of luxury".

An additional circumstance showing lack of prejudice was the fact that (contrary to Chantecler's allegations) the prices charged by Gens Aurea were not lower than those applied by the authorized resellers and by Chantecler itself.

To sum up, the serious harm amounting to "legitimate grounds" for exclusion of trademark exhaustion is always subject to a delicate assessment of merit, in the light of the concrete circumstances of the case. And the burden of proof rests with the trademark holder.

It is finally worthwhile highlighting the strict approach taken by the European case law quoted by the Chantecler second-instance decision.


Namely, according to the *Dior* judgment (CJEU, 04.11.97, C-337/95), a trademark owner cannot oppose the use of a sign by a reseller who habitually markets articles of the same kind, but not necessarily of the same quality, unless it is established that the use of the products for that purpose seriously damages the reputation of the mark.

Besides, according to the *Portakabin* judgment (CJEU, 08.07.10, C-558/08), the trademark owner is not entitled to prohibit the use of the sign for advertising purposes, unless there is a legitimate reason to do so; legitimate reasons can occur where the use is seriously detrimental to the reputation of the mark, or such use produces the impression that the reseller and the trademark owner are economically linked.



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