Important Court of Milan ruling on the restriction to Amazon to sell a luxury/prestige product

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In this article, we discuss a very recent and important measure issued by the Court of Milan (published on 03/07/2019) recognising the right for a brand owner, on grounds of the protection of the same, to prevent Amazon from marketing a luxury/prestige product intended for distribution through a selective distribution network.

In its decision of 03/07/2019 issued as part of an interlocutory proceeding initiated by Sisley against Amazon[1], the Court of Milan ruled in favour of Sisley, stating that it may validly plead against Amazon's counterfeiting its brand and therefore ban, on that ground, the latter from selling its products, although no contractual relationship exists between the two companies and thus not enforceable against Amazon the prohibition established by Sisley for its authorised distributors to sell the contract products to Amazon or on Amazon.
But let's proceed in an orderly fashion.

Sisley products are prestige and luxury goods

It must first be recalled that Societé c.f.e.b. Sisley is the owner of many brands and is internationally renowned in the field of high-end phytocosmetics. Sysley markets its products in Italy (and in Europe) through a selective distribution network.

Selective distribution networks

Exclusive distribution networks are set up by producers in order to channel in each EU country the sale of prestige, luxury or high-technology products, for which resellers must possess special skills and facilities, i.e. the ability to perform high-end services, including presentation, advice and customer assistance. The appointed exclusive national distributors or the producer's national branches identify, select and appoint a number of exclusive resellers who have the aforementioned key qualities, thus establishing a national selective distribution network headed by them and, through them, by the resultantly broader European selective distribution network.

[1] Court of Milan decision of 03/07/2019, RG No. 50977/2018, proceedings brought by Sisley Italia Srl, Societé c.f.e.b. Sisley and Societé d'investissement et de license against Amazon Europe Core Sarl, Amazon EU Sarl and Amazon Services Europe Sarl.

Which legal framework applies to selective distribution networks?

Selective distribution networks, which enjoy some exemptions as compared to the ordinary and tighter competition rules at European level, are currently governed by EU Regulation 330/2010, in force from 1 June 2010 to 31 May 2022 (hereinafter the "Regulation").

Like all regulations, it is directly addressed to citizens, individuals and legal persons resident in the various EU Member States and has binding status also on national governments and on all authorities of each Member State, thus including national courts which are required to interpret and apply national laws in accordance with the regulations.

The Regulation concerns, with a few exceptions, only vertical agreements between non-competing undertakings (thus, for example, the agreements between Philips and its distributors, and not 'horizontal' agreements between Philips and Sony, Samsung and/or other competitors).

These agreements benefit from the exemption provided for by the Regulation, despite certain contents which would normally be forbidden if:

- they do not include fundamental restrictions on competition,
- the seller's share of the market in which he sells the contract goods or services does not exceed 30% and
- the buyer's share of the market in which he purchases the contract goods or services does not exceed 30%.

As I mentioned earlier, the implementation of a selective distribution network makes it possible, under certain conditions, to derogate from the prohibition of exclusive arrangements and a number of other restrictions otherwise provided for in European competition law, as follows:

- Examples of clauses generally prohibited <u>but exempted</u> in the light of the Regulation:
  - obligation for the supplier to sell the contract goods only to selected resellers;
  - obligation for the reseller to purchase the contract goods only from the supplier;
  - prohibition for resellers to sell to other resellers NOT part of the selective distribution network;
  - prohibition for resellers to actively seek customers outside their assigned area.
- Examples of <u>clauses nevertheless prohibited</u> also in the light of the Regulation:
  - prohibition to sell to end users (save in the case of wholesalers);
  - prohibition to meet unsolicited orders from customers outside the assigned area;

- failure to provide the contractual guarantee to customers entitled to it but not reached by the selective distribution network[2].

It is important to underline at this stage three particularly relevant aspects; it is not possible to prohibit, as we have seen, a selective distributor/reseller from:

- selling to final consumers;
- selling and buying the contract goods from other selective distributors, including those located in other EU countries;
- meeting unsolicited orders from customers located in areas outside the own contract territory.

The agreement between Sisley and the authorised reseller is not enforceable against Amazon

In the specific case, one or more resellers within Sisley's exclusive distribution network in Italy had sold the contract products to Amazon, contravening the following clause of the agreement with Sisley (which is the result of a radical revision of a previous clause deemed illegitimate by the Court): *"The authorised Reseller undertakes to sell Sisley products only through points of sale authorised by the Supplier, even when he owns more than one point of sale. Sale to resellers not authorised by the Supplier is prohibited, while resale of the products to commercial operators within Sisley's selective distribution system is permitted, as the parties hereto expressly acknowledge and agree". "The authorised Reseller undertakes to ensure that the products marketed on its Authorised Website are resold only to direct and final consumers with a delivery address in the territory of the European Economic Area, or to other authorised Sisley Resellers [...]".*

As stated by the Court of Milan: **(a)** this clause, in the revised text above, is perfectly **legitimate**. **(b)** Sisley's selective distribution network is therefore **also legitimate**, as there is no provision contravening Regulation 330/2010 examined above. **(c)** however, this clause **cannot be enforced against Amazon**, since *"As already pointed out by this Court, the sales conditions agreed between the holder of the right and the resellers, insofar as they are clauses having inter partes effect, are not applicable to third parties pursuant*

[2] *"...a guarantee scheme under which a supplier of goods limits the guarantee only to customers of its exclusive distributor places the latter and the retailers to whom it sells in a privileged position as against parallel importers and distributors and must therefore be regarded as having the object or effect of restricting competition..."* (European Court of Justice 10 December 1985, Case 31/85)

to Article 1372, second paragraph, Italian Civil Code (to this effect, Court of Milan ruling of 17 March 2016; EC judgment of 30 November 2004, Peak holding, C-16/03; Court of Milan judgment of 9 December 2008)".

An Authorised reseller may not be restricted from selling via the Internet but qualitative requirements may be set out

The ruling also points out that **selective resellers cannot be prohibited from selling via the internet**: *"...With particular reference to the agreements relating to the sale via the internet of contract goods by distributors, this court has already ruled in a similar case, highlighting that <paragraph 52 of the Guidelines that accompany the aforementioned EU Regulation specifies that each distributor must be allowed to market the goods online through its own website> and that this possibility is entirely in line with what specified by the European Court of Justice according to which <the aim of maintaining the brand's prestigious image is not a legitimate aim for restricting competition and cannot therefore justify that a contractual clause pursuing such an aim does not fall within Article 101(1) TFEU>".*

However, according to the ruling in question, it was considered that *"if on the one hand a total ban on online sales constitutes a serious restriction of competition, on the other it appears permissible to impose on the distributor the observance of certain qualitative standards for its website"*, remaining entrusted to the interpreter the task of *"translating the requirements imposed by the brand owner for the sale in brick-and-mortar shops – and already deemed lawful by the Courts – in relation to the special features of the sale via the web, while verifying which fall within the scope of the derogations provided for by Article 101(3) TFEU"* (ruling of 11 January 2016, interlocutory proceeding No. 55581/2015).

Sisley's brand infringement is enforceable against Amazon where there is a selective distribution network

The Court of Milan ruling points out at this point that if it is true that within the EU context the brand owner exhausts its rights on the same once the product has been put on the market for the first time and that therefore it cannot assert its brand's rights to oppose further

commercialisation of its products, this exhaustion does not however occur in the presence of "*legitimate reasons*": "***As is well-known, Article 5, second paragraph, Italian Industrial Property Code, excludes the application of the principle of Community exhaustion where there exist legitimate reasons for the brand owner to oppose further marketing of the products***. *According to Community case-law (see ECJ judgment of 23 April 2009, case C-59/08), the existence of a selective distribution network can be included among the 'legitimate reasons' impeding exhaustion, provided that:*

- *the marketed product is a luxury or prestige good that legitimises the choice to adopt a selective distribution system;*
- *there exists the effective risk of damaging the luxury or prestige image of the brand due to the marketing carried out by third parties unrelated to the selective distribution network*".

As regards the latter (damaging the brand's image in the case of online sales via platforms not part of a selective distribution network), the Court of Milan refers to the judgment concerning the famous 'Coty' case[3], recalling that *"As far as harm to the luxury image of the brand is concerned, it is noted, firstly, that is the European Court of Justice itself that, in the Coty case judgment, highlights at points 49 and 50 that <The internet sale of luxury goods via platforms which do not belong to the selective distribution system for those goods, in the context of which the supplier is unable to check the conditions in which those goods are sold, involves a risk of deterioration of the online presentation of those goods which is liable to harm their luxury image and thus their very character>, especially if one consider that <[…] those platforms constitute a sales channel for goods of all kinds>".*

In the specific case, the Court of Milan notes, "*... Sisley products are shown and offered for sale mixed with other goods, such as household and cleaning products, which are anyhow low profile and cheap products (...) the Sisley brand is juxtaposed with low-*

[3] EGJ judgment of 06/12/2017, case C-230/16. In the Coty judgment, the legitimacy of selective distribution networks for the sale of luxury/prestige products was affirmed and the legitimacy – in the Supplier/authorised Reseller relations – of the prohibition of the former to the latter to sell the luxury contract products on Amazon or other third-party platforms has been recognised. This is therefore – without prejudice to the court's motivation mentioned in this article – a different case than the one at issue, which refers to the Supplier-brand owner/Amazon relations.

end brands of much lower quality, reputation and price or in any case far less prestigious. Considering that in its agreements Sisley explicitly requires that its products are sold only in luxury perfume shops or in specialised perfumeries and cosmetics department stores with qualified personnel, in a given urban setting, it appears undoubtedly inadequate, with respect to the required standards, the sale of the products concerned next to microwavable containers, floor cleaning products and pet food...".

In conclusion:*"It must therefore be deemed detrimental to the prestige and image of the Sisley brand the marketing, offering for sale, promotion and advertising of its products on the same web page alongside the advertising material for products of other brands including those in the low price segment. Furthermore, the juxtaposition with products not belonging to the luxury segment and the presence of links directing to completely different product sites is also detrimental. Finally, the lack of a suitable customer service, similar to that ensured by the presence in a brick-and-mortar point of sale of a person capable of providing advice or adequately inform consumers, considered a legitimate requirement by the European Court of Justice, insofar as it refers to the qualification of personnel, contributes to compromising the aura of exclusivity that has always distinguished the Sisley brand, ensuring its owner fame and high regard in the cosmetics market".*

The Court of Milan has therefore accepted Sisley's request to prohibit, as a precautionary measure, Amazon Europe from marketing, offering for sale, promoting or advertising in the territory of Italy, in the manner described above, products bearing the Sisley brands referred to in the related registered trademarks.

The Court of Milan decision is important also because the principle upheld and enforced lends itself to being applied in a larger number of cases compared to those of online sales via Amazon or other third-party platforms, that is to say in all cases of parallel imports from one EU country to another, where as a rule, out of the case examined here would apply – unlike parallel imports from a non-EU country – the principle of exhaustion of the trademark right.

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