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Important decision of the Court of Milan on the online sales of luxury or prestige products

Maurizio Iorio, Attorney at Law

In this article, we comment on a recent and important order of the Court of Milan which once again – for far more substantive reasons than in the past – recognizes the right for the proprietor of a trademark, on the basis of the protection of the luxury/prestige image of the products bearing it, to oppose their online marketing outside an existing selective distribution network capable of preserving that image and reputation.

Order of the Court of Milan No. 5265/2020 of 19/10/2020

By order No. 10182/2020 issued on 19/10/2020 (which will here be referred to as the "Order"), the Court of Milan has ruled in relation to an application for an interlocutory order filed by the licensor and the licensee/exclusive distributor of a famous and renowned brand of perfumery and cosmetics against a well-known online sale operator (which allowed, thanks to the marketplace formula and by means of his own website, the marketing by third parties of products bearing his trademark).
With the aforementioned Order, **the Court of Milan has once again ruled that the proprietor and licensee of a trademark may well oppose, even in the case of online sales, the marketing of products bearing his own trademark by third parties unrelated to his selective distribution network, whenever such 'unauthorized' marketing may cause damage to the brand's name and reputation.**

This is a similar case to the one referred to in the order issued by the Court of Milan on 03/07/2019, already widely examined and commented by myself in an article published in a previous issue of this magazine (https://www.avvocatoiorio.it/wp-content/uploads/2019/09/Art-September-2019-MKP.pdf).

Indeed, the European Court of Justice with its famous ruling of 06/12/2017 has already stated its position in this regard, reiterating the same principle (http://curia.europa.eu/juris/document/document.jsf?text=&docid=197487&pageIndex=0&doclang=IT&mode=lst&dir=&occ=first&part=1&cid=816146).

However, the grounds for the Order in question are more exhaustive than for the previous one as they refer to a wider and more complex range of elements, making it useful and appropriate their specific and dedicated examination which we shall do in this article. To this end, we will first recall in the next three paragraphs some important principles of Community law on the free movement of goods within the EU.

The general rule is the free movement of goods

First of all an important clarification is needed: the rule, within the European Union, is the free marketing and movement of goods within the EU, while the exception is the possibility of legally countering this phenomenon. In this regard, it should be noted that pursuant to Article 101 of the TFEU (Treaty on the Functioning of the European Union) ***"Are prohibited as incompatible with the internal market all agreements between undertakings which have as their object or effect the prevention, restriction or distortion of competition within the national market or a substantial part thereof"*** including those which ***"(c) share markets or sources of supply…"***.

Marketing within the EU of products from non-EU countries

However, in case of sale within the EU of products from a country outside the European Union (or the "European Economic Area" or "EEA", which in fact extends the area that concern us, consisting of 27 Member States, also to Iceland, Norway and Liechtenstein), the proprietor of a trademark is entitled to enforce his rights and oppose the introduction into the EU of products bearing his trademark, even if they have been legitimately put on the non-EU market by himself or with his consent[1].

In other words, in such cases the trademark proprietor does not exhaust his trademark rights with the putting on the market for the first time the products outside the EU, but may also exercise them subsequently.

Member States are not free to legislate in this field and must therefore respect the principle according to which if a product has been introduced into the EEA without the consent of the trademark proprietor, he may well oppose its circulation within the same.

Marketing within the EU of products from an EU county and exhaustion of trademark rights

On the contrary, within the EEA applies the principle of exhaustion of trademark rights, as expressed by Article 7(1) of Directive 2008/95/EC, and thus with other words by the IPC (Industrial Property Code) whose Article 5 implements this principle in Italy: "*Trademark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trademark by the proprietor or with his consent*".

However, the second paragraph of the provision (Article 7.2) contains an important exception: "*Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market*".

As for the aforesaid "*legitimate reasons*", the case-law provides that in the case in point the trademark proprietor may oppose the commercialization in a Member State of his own-brand products (even where they come from another Member State) only in the presence of three concurrent conditions:

-(1) The existence of a **selective distribution network** containing a related, legitimate ban on sales to resellers outside the network;

-(2) The marketed and labelled good must be **a luxury or prestige product** (e.g.: fashion items, cosmetics, technological products, provided they are always high-end products accompanied by high-quality services);

-(3) there must be **an actual or potential damage** to the luxury or prestige image as a result of being sold through parallel imports.

By concurring these three conditions, DICK, proprietor of the trademark and supplier of TOM, can in fact claim that the product has never been legitimately put on the market and that consequently his trademark rights have never been exhausted. He can therefore act not only (contractually) against the distributor TOM who allegedly breached the selective distribution contract but, on the basis of trademark protection, directly against the third party HARRY who purchased the products from the latter to market them outside the exclusive distribution network and/or against the online sale operator ROGER, who allowed HARRY to sell online the products in question by making available to such third party his online marketplace platform.

Liability of the operator of a marketplace website

In the latter regard, the responsibility for the operator of the online marketplace platform, which we called "ROGER", is fully clarified in the Court of Milan order of 19/10/2020 examined here. In fact, the Court recalls that pursuant to the law governing electronic commerce (Legislative Decree 70/2003), the activity of those who provide online services to third parties may fall into one of the following three categories:

a) activity of simple data transport or "*mere conduit*";

b) activity of temporary storage, or "*caching*";

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[1]This principle has been recently reaffirmed by Article 7(1) of Directive. 2008/95 / EC, which will be discussed further below.

[2]European Court of Justice, Silhouette case (C-355/96) of 16/07/1998.

c) activity of storing information provided by a recipient of the service, or "*hosting*" (i.e. activity comparable to the marketplace services provided by the operator ROGER used in our example).
Those who carry out one of the aforementioned three activities are civilly liable only in extreme cases, i.e. only "… *if, when requested by the judicial or administrative authorities, they do not act promptly to prevent access to the content of such services... or fail to inform the competent authority where appropriate*". More precisely, according to the case-law of the CJEU[3] (see Judgment C-567/18), this exemption from liability occurs in practice only in the case of operators "... *who exclusively store goods which infringe trademark rights – but not for the purposes of offering them or putting them on the market*", thus obviously not in the case of the operator ROGER who is instead responsible to the proprietor of the trademark for the unauthorized use of the same by third parties 'hosted' on his website. In the Order under examination, the Court also states that where DICK, proprietor of the trademark, limits itself to requesting the judge to prevent ROGER from continuing to host on his website the marketplace sales made by HARRY which infringe the same, it is not even necessary for ROGER to be abstractly responsible for any damage deriving from the alleged infringement, since the measure is a 'neutral' provision that disregards the intent or fault of the agent.

Liability of the operator of a marketplace website regardless of trademark infringement

The Court Order is interesting because it identifies the responsibility of the proprietor of the online sales platform, ROGER, even if specifically there is no violation of the trademark of DICK. In fact, in the Order, the Court first of all highlights that, in the specific case, the marketing methods do not meet any of the quality standards laid down by DICK and objectively necessary to protect the image and reputation of the product, and this due to: the lack of any physical store in being HARRY a pure player; "*the juxtaposition of the perfumes at issue and other diversified products belonging to categories completely different from those of luxury and thus of low qualitative level (like for example cat food, toilet paper, insecticides etc.)*" with consequently no guarantee of *"an appropriate perception of the products by the buyer"; "... the presence of advertising material for products of other brands – also of lower market-level and prestige – on the same webpage in which perfumes are presented"* and without the presence of contrasting elements making distinct the different qualities.
However, according to the Court of Milan, the lack of all these qualitative requirements, <u>even if it cannot be invoked as a breach of contract by ROGER and HARRY</u>, which are unrelated to DICK's selective distribution network and have therefore not entered into any contractual obligation towards DICK in this regard, <u>could be equally invoked against them</u> as follows: *"On this point... It should be noted out that, although certain sales standards are laid down in selective distribution contracts, it is not for this reason – in itself – that they are inapplicable to the third-party retailer.*
If they, in practice, integrate requirements that, if violated, still damage the prestige image of the trademark regardless of whether or not they are included in contractual clauses, <u>these standards are certainly also enforceable against any other party with respect to the contract</u>. And this not as an -inadmissible- extension to third parties of the contractual effects, but as rules of conduct which – regardless of their transposition into the selective distribution contract – are enforceable also against third parties".

Maurizio Iorio, Attorney at Law

[3] Court of Justice of the European Union