LEGAL OPINION

by Maurizio Iorio

SELECTIVE DISTRIBUTION NETWORKS AND SALES THROUGH MARKETPLACE

In this issue of Marketplace, after recalling the main rules governing a selective distribution network, we will examine what the trademark owner may prohibit to distributors/resellers (whether or not selective) and third parties, with particular attention to sales through marketplaces, taking into consideration a recent ruling by the Italian Antitrust Authority (AGCM) of November 2021.

MAURIZIO IORIO

This section originates from the partnership between Marketplace and ANDEC, and it is authored by Maurizio Iorio, in his dual role of professional Attorney at Law in Milan and President of ANDEC

What does a selective distribution network consist of?

Selective distribution networks are set up by producers to channel in each EU country the sale of luxury, prestige or high-tech products, for which particular expertise and facilities are required from resellers, i.e. the ability to provide high-end services, including presentation, advice and customer assistance. The appointed national exclusive distributors or the producer's national branches identify, select and appoint a certain number of exclusive resellers who possess the aforementioned key qualities, thus constituting a national selective distribution network that reports to them and, through them, to the resultantly wider European selective distribution network.

What is the legal framework of selective distribution networks?

Selective distribution networks, which enjoy exemptions compared to ordinary networks, are currently governed by Commission Regulation 330/2010, also known as VABER, in force from 1 June 2010 until 31 May of this year.

Which agreements are covered by the exemption referred to in Regulation 330/2010?

The VABER covers, with some exceptions, only **vertical agreements between non-competing companies** (therefore, for example, agreements between Philips and its distributors and not 'horizontal' agreements between Philips and Sony, Samsung and/or other competitors).

Only in exceptional circumstances are included also some vertical agreements between competing companies.

What are the conditions for exemption?

Agreements qualify for exemption under the VABER, despite certain content that would normally be prohibited, if they do not contain hardcore restrictions of competition and if in the "*Relevant Market*":

- **the seller has a share of less than 30% of the relevant market on which he sells the good** or service covered by the contract, and
- **the buyer has a share of less than 30% of the relevant market on which he buys the good** or service covered by the contract.

The **"Relevant Market"** should be identified by combining two criteria:

(1) the relevant product market, consisting of goods and services considered interchangeable by the buyer and,

(2) the relevant geographic market, understood as the area in which the relevant services or products are supplied characterised by conditions of competition distinct from other areas.

What does the exemption consist of?

As mentioned above, selective distribution agreements benefit from the exemption provided for by the Regulation. Below, as an example, are some exempted clauses that would otherwise be prohibited:

- **Obligation to supply**: Obligation of the supplier to sell the contractual products only to authorised distributors or resellers (which, however, can never translate into an exclusivity for the distributor/reseller since the supplier will have to be able to sell to third parties models or products other than those agreed upon, and in any event shall not be responsible for sales of the agreed upon products by third parties in the area);
- **Obligation to buy**: Obligation of the authorised distributor to buy the contractual products only from the supplier and obligation of the authorised reseller to purchase them only from the distributor.
- **B2B: Prohibition on active sales**: Prohibition to authorised dis-

tributors and resellers from actively seeking other distributors or resellers to whom they may sell the contract products outside their assigned area.

Which clauses will remain non-exempt and therefore prohibited?

The following are examples of clauses not exempted by the Regulation and therefore prohibited:

- **Prohibition on the buyer to determine his own selling price**, without prejudice to the right to impose a maximum selling price (i.e.: not a minimum) or to recommend a resale price.
- **B2B**: **Prohibition on cross-supplies between distributors or resellers** forming part of the selective distribution network.
- **B2B**: Prohibition **on passive sales (unsolicited orders) by resellers to other resellers or distributors located outside the contract territory.**
- **B2C**: **Prohibition on passive or active sales by resellers to end users** (the prohibition is only possible in the case of distributors/wholesalers).

Some key points established by the EU Commission and the European Court of Justice:

To complete the expository framework I summarise below, some important points relating to the interpretation of the legislation on selective distribution networks:

(1) ***"In principle, every distributor must be allowed to use the internet to sell products. In general, where a distributor uses a website to sell products that is considered a form of passive selling"*** (Guidelines on Vertical Restraints, No. 52).

(2) La The Commission highlights a specific criticality **in the request to resellers who are part of a selective distribution network to own at least one physical point of sale**. In the Commission's opinion, in fact, where such requirement is not aimed at ensuring the quality of the distribution and/or brand image, it could be prohibited as it is not justified by the exemption Regulation. Hence a particular attention of the supervisory authorities on this point.

(3) **Possibility for the owner of a trademark to oppose (on the basis of the trademark itself) parallel imports of his trademarked product from another EU or EEA country** on the basis of three conditions: (a) the existence of a selective distribution network; (b) it is a luxury or prestige product; (c) there is an actual or potential prejudice to its luxury or prestige image as a result of its marketing through parallel imports. If the three conditions are met, the supplier, owner of the trademark (pursuant to Art. 7.2 of Directive 2008/95/EC, a provision implemented in Italy by the Intellectual Property Code, Art. 5) can claim that the product has never been lawfully placed on the market and, consequently, that his trademark right has never been exhausted; he can therefore act not only (contractually) against the authorised distributor who has allegedly breached the contract, but, on the basis of trademark protection, directly against the third party who purchased the products from the latter in order to import them into another Member State.

Marketplace: what prohibitions can be opposed to retailers and distributors?

Having briefly recalled the legal context of a selective distribution network, we come to the central part of this article by answering the following four questions:

(1) **Can the producer/supplier prohibit an authorised reseller from selling the products (referred to in the selective distribution network) on the marketplace?**

This question, on which some national antitrust authorities had a negative orientation, has been decided in the affirmative by the European Court of Justice (ECJ) (Case C-230/16 Coty Germany GmbH v Parfumerie Akente GmbH) in response to a request by a German court for a preliminary ruling.

According to the European Court of Justice (ECJ), under certain conditions (i.e.: actual need to protect the image of prestige or luxury of a product ordinarily sold through a selective distribution network) it is possible to prohibit an authorised retailer to sell on a marketplace products ordinarily marketed through a selective distribution network.

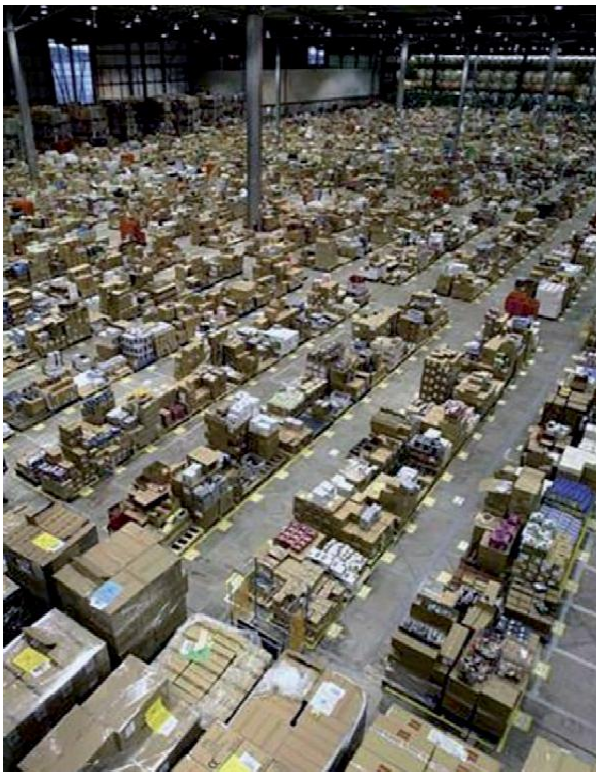
In particular, the ECJ, in its judgment of 2 April 2020 (C-567/18), ruled as follows:

a) A contractual clause which prohibits members of a selective distribution system for luxury products from making Internet sales via third-party online sales platforms (Amazon and the like) is lawful "*if that clause has the objective of preserving the luxury image of those goods, it is laid down uniformly and not applied in a discriminatory fashion, and it is proportionate in the light of the objective pursued, these being matters to be determined by the referring court*".

b) The prohibition imposed on the members of a selective distribution system for luxury goods to use third-party companies in a recognisable manner for sales via the Internet "*does not constitute a restriction of customers*" not permitted by the exemption regulation on selective sales networks (Regulation (EU) No. 330/2010).

(2) **Can the producer/supplier reserve for himself the sales to the owner of a platform (e.g. Ebay, Amazon, etc.) and prohibit an authorised reseller from selling the products (referred to in the selective distribution network) through the marketplace managed also by the same platform?**

The Italian Antitrust Authority (AGCM) gave a ruling on this question in its judgment of 16 November 2021. According to the AGCM, the investigation conducted in the course of the proceedings ***"... made it possible to ascertain that certain contractual clauses of an agreement signed on 31/10/2018 – which prohibited official and unofficial resellers of Apple and Beats products from using Amazon.it, allowing the sale of Apple and Beats products in this marketplace only to Amazon and certain parties chosen individually and in a discriminatory manner – violate Art. 101 of the Treaty on the Functioning of the European Union. The terms of the agreement also restricted cross-border sales, as retailers were discriminated against on a geographic basis".*** In addition, ***"The restrictions of the agreement have affected the level of discounts offered by third parties on Amazon.it, decreasing their amount".*** Again according to the AGCM, ***"The restrictive nature of these conducts appears confirmed by the circumstance that Amazon.it represents the e-commerce establishment where at least 70% of purchases of consumer electronic products are made in Italy, of which at least 40% is represented by retailers that use Amazon as an intermediation platform".*** The AGCM consequently imposed a fine of EUR 114,681,657 on the Apple group and of EUR 58,592,754 on the Amazon group. The measure has been challenged by both companies, which deny the charges and Amazon issued a press releases criticizing the AGCM's decision in a reasoned manner, explaining its position on the matter, available in Italian at the following address: https://www.arenadigitale.it/2021/11/23/amazon-profondo-disaccordo-con-decisione-antitrust/ Also the AGCM sent out a press release available here in English:



https://en.agcm.it/en/media/press-releases/2021/12/A528

(3) **Can the producer/supplier prohibit a third party, who is not part of a selective distribution network, from selling online luxury or prestige products destined by the producer to his own selective distribution network?**

The Court of Milan, in an order issued as a precautionary measure on 03/07/2019 in the Sisley v Amazon case, has recognised the right for the owner of a trademark, based on the protection of the trademark itself, to prohibit Amazon from marketing a luxury/prestige product intended to be ordinarily distributed through a selective distribution network..

In fact, according to the Court, while it is true that within the EU context the owner of a trademark exhausts his rights on the trademark itself after having put the product on the market for the first time and cannot therefore restrict the further distribution of his products, such exhaustion, according to EU and national law, does not occur in the presence of "*legitimate reasons*".

(4) **Can the owner/licensee of a trademark take action against the company managing the marketplace in the event of the marketing on that platform of products bearing his trademark by third parties unrelated to his selective distribution network?**

By order No. 10182/2020 issued on 19/10/2020, the Court of Milan indicates the responsibility of the owner of the online sales platform **also in the case in which there is no specific infringement of the trademark**. In the Order it is pointed out that in the concrete case the mode of marketing does not meet any of the quality standards established by the trademark owner and objectively necessary to protect the image and reputation of the product – and this due to the lack of any physical store given that the third party reseller is 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 (for example, cat food, toilet paper, insecticides etc.)*" with consequently no guarantee of "*an appropriate perception of the products by the buyer*".

According to the Court, although the lack of all these qualitative requirements cannot be construed as a breach of contract by the retailer and the operator of the marketplace platform, both of which are unrelated to the selective distribution network and therefore have no contractual obligation towards the trademark owner, it is equally enforceable against them, 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 reseller. If, in practice, they integrate requirements that, if violated, would still damage the prestige image of the trademark regardless of whether or not they are included in contractual clauses, these standards are certainly also enforceable against third parties with respect to the contract. And this not as an – inadmissible – extension of the contractual effects to third parties, but as rules of conduct which – regardless of their implementation into the selective distribution contract – are enforceable also against third parties".***