

The general principles: trademark protection, exhaustion and parallel imports

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ABSTRACT

1. In the Italian law, as a general rule, the activity of the “parallel” sellers has to be considered completely legitimate, when the goods come from a Country of the European Community, where they have been marketed either by the IPRs holder or with his/her consent.

Such a conduct cannot indeed be criticized either in terms of trademark counterfeiting, because of the fact that in this field is carried forward the so called “exhaustion” principle, on the basis of which after the first sale taking place within a Country of the European Union or within the European Economic Area the rights holder cannot object to the further circulation of his products, unless exist “legitimate reasons” for doing so, as it is “*in particular when the status of such products is modified or altered after their introduction into the market*” (Article 5 Italian Industrial Property Code, that implements the conclusions achieved, already many years ago, by the EC case law: see in particular ECJ, May 23rd, 1978; ECJ, December 3rd, 1981; ECJ, July 21st, 1996, which detailed the prerequisites for considering even the re-packaging admissible, especially with regard to the pharmaceutical products, excluding it *inter alia* when “*the presentation of the re-packaged product is suitable of harming the reputation of the trademark*”; as well as, in an analogous sense ECJ, November 11th, 1997); or from the viewpoint of unfair competition law, exactly because, being invalid any eventual prohibition to sell, its violation by a third part could not be considered contrary to the principles of professional fairness.

2. A prohibition of re-selling could be imposed only in relation to products which are destined to extra-European markets: the principle of exhaustion applies indeed exclusively in the Community circle, so that eventual original products that are re-imported in Italy from Countries which are outside the European Union and the European Economic Area are considered for all practical purposes as counterfeiting goods (in this way, expressly, ECJ, July 16th, 1998 and in the Italian case law Court of Appeal of Milan, July 22nd, 1994, in *Giur. ann. dir. ind.*, 1995, 537 and ff.; Court of Bologna, ord. August 21st, 1995, *ibidem*, 1212 and ff.; Court of Milan, November 20th, 1995, *ivi*, 1996, 501 and ff.; Court of Treviso, March 20th, 1996, *ibidem*, 722; Court of Appeal of Milan, October 11, 1996, *ivi*, 1997, 395 and ff.; etc.).

The determinant element for establishing whether a specific product can benefit from the principle of exhaustion or not is therefore the consent of the rights holder to its marketing within the Community territory. Accordingly, the presence of such a consent determines *ipso facto* the realization of the exhaustion, apart from the eventually existing contractual agreements among the parts, in the same way its absence makes sure that we are not facing original products.

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Under this point of view the situation is completely identical to that which occurs in the case of the so-called “overproduction”, that is when a contractor manufactures the goods bearing the trademark in a quantitative exceeding that which has been authorized by the TM holder, introducing on the market products that are absolutely identical to the original ones and therefore impossible to distinguish, but that, at the same time, *are not original*, for the reason that is lacking the consent of the rights holder. For what concerns this last hypothesis, applies also another expressed rule which is based on the general principle above mentioned, i.e. Article 23, 3° comma, I.I.P.C. (corresponding to Article 8.2 of the EC Directive No. 104/89), that provides that “*the holder of the rights on the trade mark can enforce his/her right of exclusive use of the trade mark itself against the licensee who violates the dispositions contained in the licence agreement*”.

3. The ECJ has also affirmed, in general terms, that “*in case products on which a trademark is apposed, either by the rights holder or with his consent, are introduced in the Community market, the seller has, beside the permission to sell such products, also the permission to use the trademark for promoting the further commercialization of the products themselves*” (ECJ, November 4th, 1997, C-337/95, Dior/Evora), namely he is allowed to use the trademark in the advertisement of these products.

The same decision that has just been mentioned has however underlined that the permission to use the trademark for advertising purposes as recognized to the seller who has bought original products introduced within the Community territory either by the rights holder personally or with his consent is not limitless and that, in particular, in case of luxury goods (in the specific case, products with the Dior trademark were involved), the retailer must “*do everything he can for avoiding that his advertisement activity compromises the value of the trademark, damaging the style and the image of prestige of the products in question, as well as the aura of luxury surrounding them*”, for example collocating “*the trademark in a context that could strongly debase the image that the rights holder had been able to create around his trademark*” (ECJ, November 4th, 1997, C-337/95, points Nos. 43-47 of the decision).

Likewise, always according to the ECJ, it is illicit to use within one’s own store/practice the trademarks of the products which are sold in the store in a way suitable to make the public believe that the store/practice itself belongs to an “official” distribution network, or, anyway, that there is a franchising relation with the holder of the rights on the trademark itself (on this point see, in case law, the ECJ, February 23rd, 1999, C-63/97).

4. Also beyond these hypotheses, it is furthermore considered illicit, also with regard to products marketed with the IPR owner consent within the EU/EEA, the conduct of the subject who sells the original products abusing of the reputation of the trademark, for example giving the latter an absolutely disproportionate relevance in the advertisement (on the matter see Court of Milan, July 23rd, 1998 in *Giur. ann. dir. ind.*, 1998, 838 and ff.; and Court of Milan, March 9th, 1987, *ivi*, 1989, 96 and ff.), or even using the products with purpose of so-called *gachage*, that is using products bearing trademarks with a strong power of attraction on the public sold at very low prices as a “bait” for the customers, who once into the store buys also other goods (on the matter see, at last, Court of Ancona, Separate Division of Senigallia, in *Giur. ann. dir. ind.*, 2003, 430 and ff.).

Furthermore it must be noted that the Italian case law relied upon the prohibition to use misleading advertising in cases where the deception derived from the omission of data

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(see Court of Rome, ord. September 29th, 1993, in in *Giur. ann. dir. ind.*, 1993, 731 and ff. and Court of Milan, May 5th, 2005, *ivi*, 2005, 895 and ff.). This principle can hold also in cases where the products on sale represent stocks of previous years, as frequently happens, without any specification of this fact.

5. Beyond the just mentioned cases, the rights holder has a further option, i.d. the one of creating a system of selective distribution, namely limiting in a formal and regulated way the affiliation to his/her own distributing network for stores/practices that have specific qualitative characteristics.

This system is considered compatible with the Antitrust legislation when it is made necessary by particular technical needs (for example, the complexity of the marketed products, which require particular assistance services in the after-sale period, that not all the retailers are able to provide), but also by the need to guarantee the prestige and the renown of the trademark, as long as the selection of the distributors is based on objective criteria of a qualitative kind, as could be not only “*capacity, competence, professionalism and reliability of the distributors*”, but also, for example, “*the location of their stores*” and their “*possibility to maintain an adequate stock pf products*” (expressly in this sense see DELLI PRISCOLI, *Le restrizioni verticali della concorrenza*, Milano, 2002, pp. 134-135: even though from this last viewpoint the EC case law is quite rigid, also in order to avoid the passing mere quantitative limitations of the distributors’ number off as selective distributions: see, for example, EEC Commission, December 16th, 1985, in the *Villeroy & Boch* case).

All this, according to the Italian case law, seems to imply also the possibility to act against the “parallel” sellers for unfair competition, when it is possible to demonstrate that they have obtained the goods from “official” sellers, even though they were aware of the existence of the (legitimate) prohibition to re-sale applying to the latter (on the matter, see, for example, Court of Milan, July 9th, 1981 in *Foro Pad.*, 1981, I, 153 and ff.; and Court of Milan, April 23rd, 1990, in *Giur. ann. dir. ind.*, 1990, 480 and ff.; see also Supreme Court of Cassation, July 30th, 1996, No. 6887, in *Giur. it.*, 1997, I, 1, 615 and ff.).

The subject who would choose to walk down this street, should think: (1) to individuate a series of objective elements, of a qualitative character (possibly bound also to after-sale services), which allow to select the practices to be provided with the products bearing a specific trademark; (2) to contractually bind these subjects to make public their affiliation to the network of selective distribution (in order to prevent the third parties who intend to buy and re-sell the goods in an indirect way from claiming their good faith); and (3) to establish in the supply agreements entered into with the components of the network, the prohibition to re-sell to subjects (different from the final consumers) who do not belong to the network themselves. Of course some form of control, as well as a system of sanctions, should be provided for those unfaithful sellers, in order to stress the “closed” character of the network, provided that of course the TM owner should allow the participation of all those who have the specified requirements (that also for this reason have to be studied with particular attention).

It is also worth noting that the Italian Courts seem to be oriented, even though not in an univocal way, towards considering illicit, as an act of unfair competition, the abrasion by the “parallel” sellers of the codes apposed on the products by the rights holder (on the

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point, see *inter alia* Court of Milan, April 23rd, 1990, in *Giur. ann. dir. ind.*, 1990, 480 e ss.). This gives us one more possibility to effectively act against them, discouraging them from carrying on such an activity.

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BIOGRAPHY

Head and founder of IP_Law Galli and Professor of IP Law at the University of Parma, Cesare Galli handles litigation regarding all branches of IP Law, often tackling cross-border problems too (he is the author of key essays on this issue). In 1999 he obtained the first Italian final ruling on biotech patents. Likewise in 2004 he secured the first Italian ruling on the validity of a computer implemented invention patent and between 2005 and 2009 key decisions on the extended protection of renowned trademarks. Since 2005 he has been a Member of Governmental Boards of Counsels in the IP field and since 2009 of the EC Anti-Counterfeiting Observatory. He is the author of numerous publications including the books: *Transitory Problems in Italian Trademark Law (1994)*; *Functions of Trademarks and Scope of Protection (1996)*; *Domain Names in Italian Case-Law (2001)*; *'The Future of Trademarks in the Face of the Challenges of Globalisation' (2002)*; *The New Frontiers of Patent Law (2003)*.

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