

POSSIBLE CONFLICTS BETWEEN SELECTIVE DISTRIBUTION SYSTEMS AND INTERNET SALES.

Sales through Internet by the supplier (through his own website) or through companies specialized in Internet sales.

How to avoid these problems through a system which incorporates the members of the network or by clearly separating the two channels?

Another problem is to try to prevent non authorized dealers to sell through Internet.

Guidelines on Vertical Restraints

“(52) The internet is a powerful tool to reach more and different customers than will be reached when only more traditional sales methods are used and this is why certain restrictions on the use of the internet are dealt with as (re)sales restrictions. In principle, every distributor must be allowed to use the internet to sell products.

(...)

(54) Notwithstanding what has been said before, under the block exemption the supplier may require quality standards for the use of the internet site to resell his goods, just as the supplier may require quality standards for a shop or for selling by catalogue or for advertising and promotion in general.

This may be relevant in particular for selective distribution. Under the block exemption the supplier may for instance require its distributors to have one more brick and mortar shops or showrooms as a condition for becoming member of its distribution system.

→ **French law: specific regulation from commercial code Article L442-6 I.** *“May be liable to compensate any damage, any producer, trader, business or person registered in the directory of businesses:*

6 ° who participate, directly or indirectly in the violation of the prohibition of resale outside the dealer network is bound by an agreement of selective and exclusive distribution exempt under the rules of competition law”.

In addition:

- * French civil Code Article 1382 : Torts
- * Use of a trademark without authorization (Article 716-9 French IP code).
- * Misleading or false advertising (Article L. 121-1 of the Code of consumption); giving the impression that they had been selected by the supplier
- * "The purchase from an unselected distributor of products and the sale of these products does not constitute in itself an act of unfair competition" (Cass. Crim., April 5, 2010)

Therefore: the provider has to prove legality of the network that it had established and the abnormality of the supply or sale of products by the unauthorized distributor (Cass. Com, October 18, 1994)

The illegal use of the mark does not consist, as the trademark right is exhausted by the first commercial product.

BURDEN OF PROOF

Vendor: according to the Cour de Cassation, the liability for non-selected provider is subject to proof by the supplier of the legality of its network.
Cass.com, October 27, 1992, n°90-15.831 Sté Pin Ups c/ Parfum Azzaro

Distributor: However, the illegal nature of supply will be deducted from the refusal to justify the origin of products.
Cass. Com., January 11, 2005, Auchan / Company Levi's Strauss

Based on UECJ decision of **20/11/2001 - Davidoff-C 414-99**, burden of proof rests on who alleges the exhaustion of trademark rights : "it is for the trader alleging the existence of a consent to provide supporting evidence and not the trademark holder to establish lack of consent."

Sanction : *trademark infringement / unfair competition.*

Theory of exhaustion of trademark rights

- Article 5 of Directive 89/104/EEC of 21 December 1988, transposed to Article 713-4 of the ICC, gives the trademark holder an exclusive right enabling him to prevent all third parties, including to importation of goods bearing the mark traded.

Exception: Article 7 §1 provides that the proprietor's rights are exhausted when products were put on the market in the EU market by the proprietor or with his consent.

The UECJ refused to recognize the international exhaustion of trademark rights in the judgment of 07/16/1998 UECJ C-335-96-Silhouette: *the owner retains the right to prohibit the marketing within the EU territory of the products that it has in the market outside the EU.*

07/01/1999 - UECJ C-173/98 Sebago: "The rights conferred by the mark are exhausted only for the products put on the market in the territory of the [EU] with the consent of the owner. “

Recent applications by the Court of Cassation

Cass. Com. April 7, 2009 No. 08-13378, EPSON: “The party claiming that the trademark owner's rights are exhausted, has to prove that the products are authentic and have been put in the first commercialization in the UE”.

Cass.Com., March 23, 2010, Nos. 09-65839 and 09-66522, Chanel: Sale made while Chanel was opposing the sale is not a trademark infringement but unfair competition.

UECJ April 23, 2009 - C-59/08 Copad SA/DIOR: *Christian Dior Couture had made May 17, 2000 at SIL a trademark license contract for the manufacture and distribution of Christian Dior, SIL has sold Copad, a discount store, while the license agreement forbade selling to discount stores, Dior had assigned SIL Copad companies for trademark infringement. The Court of Cassation said that putting on the trade of goods bearing the mark by the licensee in breach of a clause in the license agreement is made without the consent of the owner of the mark in accordance with European texts, since the sale of goods bearing the infringing mark is Dior.*

“The proprietor of a trade mark can invoke the rights conferred by that trade mark against a licensee who contravenes a provision in a license agreement prohibiting, on grounds of the trade mark’s prestige, sales to discount stores of goods such as the ones at issue in the main proceedings, provided it has been established that that contravention, by reason of the situation prevailing in the case in the main proceedings, damages the allure and prestigious image which bestows on those goods an aura of luxury. “

Internet and authorized network

Opinion of the ADVOCATE GENERAL of 3 March 2011 (Case C-439/09, Pierre Fabre): “for effectively imposing in its selective distribution agreements a general and absolute ban on the sale by its selected (authorized) distributors of cosmetics and personal care products to end-users via the internet”.

Anticompetitive object

French Government considers two interpretations of Article 81(1) EC possible :

1- the ban may be considered a restriction by object of competition which not only has an adverse effect on the structure of competition, due to the imposition in effect of territorial restrictions on distributors, but also prejudices the interests of consumers and is not objectively justified.

2- the French Government considers that there is currently inadequate experience on whether the ban in question has by its very nature the object of restricting competition. An assessment of the positive and negative effects of the ban in question is thus indispensable.

A) Hardcore restriction/restriction by object

The anticompetitive object of an agreement may not therefore be established solely using an abstract formula:

- The concept of a 'hardcore restriction' is referred to in the Commission's Guidelines on Vertical Restraints ('Guidelines') which state at paragraph 46 that '[Regulation No 2790/1999] contains in Article 4 a list of hardcore restrictions which lead to the exclusion of the whole vertical agreement from the scope of application of [that regulation]'.
 - Such hardcore restrictions thus include (...) **the restriction of active or passive sales** to end-users by members of a selective distribution system operating at the retail level of trade and the restriction of cross-supplies between distributors within a selective distribution system.
 - While the inclusion of such restrictions in an agreement **is no legal presumption that the agreement infringes Article 81(1) EC.**

B) Objective justification

PIERRE FABRE considers that the ban in question is objectively justified due to the nature of the products in question and their use.

1- Only the presence of a pharmacist can guarantee the optimal level of advice to consumers. **BUT REJECTED BY THE GENERAL ATTORNEY.**

2- PIERRE FABRE cited the Copad matter which provides that '*the proprietor of a trade mark can invoke the rights conferred by that trade mark against a licensee who contravenes a provision in a licence agreement prohibiting, on grounds of the trade mark's prestige, sales to discount stores ..., provided it has been established that that contravention ... damages the allure and prestigious image which bestows on them an aura of luxury*'. **BUT NOT APPLICABLE**

3- PIERRE FABRE states that in any event the ban on internet sales is justified for safety and public health reasons and that ban in question is aimed at ensuring the correct use of its products by individual consumers. **BUT REJECTED BY THE GENERAL ATTORNEY.**

Selective distribution

The Attorney General admits that :

* the Court has already considered that selective distribution agreements can be justified to preserve the aura and image emanating Pierre Fabre products (*Copad SA / Ch.Dior couture SA 04/23/2009*).

* a manufacturer can make Internet Sales on appropriate terms, reasonable and not discriminatory, thus protecting the image of its products.

Thus, manufacturers can adapt this mode of distribution to satisfy the requirement of customers.

So, the selective distribution system may, under sometimes circumstance, constitute an aspect of competition compatible with Article 81 § 1 of the EC Treaty.

NOTE : VARIOUS EQUIVALENT DECISIONS FROM FRENCH COMPETITION AUTHORITIES (BIJOURAMA...)

Conclusion of the General Attorney: the Court should answer as follows the questions referred by the Cour d'appel de Paris:

- (1) **A general and absolute ban on selling goods to end-users via the internet imposed on authorized distributors in the context of a selective distribution network (...)** which goes beyond what is objectively necessary in order to distribute those goods in an appropriate manner in the light not only of their material qualities but also their aura or image, **has the object of restricting competition for the purposes of Article 101(1) EC.**
- (2) A selective distribution agreement which contains a general and absolute ban on internet sales cannot benefit from the block exemption.
- (3) but **may benefit from an individual exemption**

EXAMPLE :

Control of the selective distribution between a law firm and the manufacturer and control of the Internet non authorized resellers.

Legal Actions:

- * 110 injunction letters**
- * 15 judicial claims**

EXAMPLE :

RISKS : Products from Europe from a country where selective distribution is not applied or impossibility to localize the Internet Website or hoster:

* in France possible to require to the hoster to block the site or the domain name;

* But various technical possibilities to avoid actions

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TRIBUNAL DE COMMERCE DE PARIS

ORDONNANCE DE REFERE PRONONCEE LE 2 MARS 2011

PAR MONSIEUR LIMON-DUPARCMEUR PRESIDENT,
ASSISTE DE MADAME LOBATO GREFFIER

Par sa mise à disposition au greffe,

RG : 2010079263
02/01/2011
(R3)

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FINFR : SAS PANASONIC FRANCE, dont le siège social est 1-3, avenue François Mitterrand 93210 SAINT-DENIS, RCS de BOBIGNY : B 697 024 551
PARTIE DEMANDRESSE : comparant par Maître Frédéric POTREMER Avocat (1744).

ET : SARL PROMORAMA, dont le siège social est 100 rue des Moines 75013 PARIS, RCS DE PARIS : 5 487 678 022
PARTIE DEFENDEUSE : comparant par Maître MARSHMANK Caroline Avocat (9505)

La société PANASONIC FRANCE nous expose pour l'essentiel qu'elle commercialise des équipements électroniques, notamment des téléviseurs à écran plat et des appareils photos numériques haut de gamme, justifiant l'établissement d'un réseau de distribution sélective. Qu'elle a découvert que la société PROMORAMA proposait à la vente via son site internet, des écrans plats et des appareils photos numériques réservés au réseau de distribution sélective et ce, en les présentant avec des images démodées ou faux écrans, présentation dégradant ainsi l'image de marque de la société PANASONIC.

C'est dans ce contexte que pour les motifs énoncés en son assignation introductive d'instance en date du 23/11/2010, la SAS PANASONIC FRANCE nous demande de :

vu l'article 1382 du Code civil,
vu l'article 873 du Code de procédure civile,
vu l'article L. 442-6 1° du code de commerce,
constater que le site www.promorama.fr commercialise des produits Panasonic réservés aux distributeurs agréés, sans bénéficier de l'argument de Panasonic en qualité de distributeur agréé, et notamment les références TX-119D5FP, TX-119D26FW, TX-122D28EP, TX-122D28FP,

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