Parallel imports: if, when and how you can legally fight them

In an increasingly globalized market characterized by the widespread use of the Internet and by various forms of telecommunications, it is inevitably to talk, quite a lot, of distance selling and, as natural upshot, of parallel imports.

In this issue of Market Place, I shall, without obviously "demonizing" the phenomenon, briefly consider the various legal aspects in relation to which it is possible, and when it is possible, to oppose parallel imports.

The general rule is the free movement of goods

First, let me make an important distinction: the rule within the European Union is the free movement - and thus also the parallel import - of goods, while the possibility of legally fighting this phenomenon is the exception. It should be pointed out that under Art. 101 of the TFEU (Treaty on the Functioning of the European Union) "***All agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market are prohibited***", and in particular those which **"*c) share markets… "*.** The German group Volkswagen knows something about it. The Volkswagen group, for having in a continuous, detailed and substantial manner opposed the parallel exports of its vehicles from Italy to Austria and Germany (in the period from 1993 to 1996), was at the time imposed to pay [1] by the European Commission a fine of 102 million ECU (1 ECU = 1 Euro), subsequently "reduced" to 90 million Euros by the Court of First Instance of the European Union with the judgment of 6 July 2000, later confirmed by the European Court of Justice on 18 September 2003.

The parallel imports and the selective distribution "networks"

The possibility for European operators to set up selective distribution networks, which benefit from exemptions when compared to the customary tight antitrust rules enforced by the EU Commission , is currently established by the EU Regulation 330/2010 in force from 1 June 2010 till 31 May 2022.

It only concerns, <u>with some exceptions</u>, the sole vertical agreements between non-competing companies such as, for example, agreements between Philips and its distributors and not the "horizontal" agreements between Philips and Sony, Samsung and/or other competitors.

These agreements benefit of the exemptions foreseen by the Regulations, despite some content which would normally be prohibited, if:

[1] The date was 28 January 1998.

• they do not contain fundamental restrictions on competition (which will be discussed later),

• the seller holds a market share below 30% of the relevant market in which he sells goods or services covered by the agreement and

• the purchaser holds a market share below 30% of the relevant market in which he buys the goods or services covered by the agreement.

As said, the adoption of a selective distribution network allows, on certain conditions, to waive the prohibitions on exclusive dealings and on several other restrictions foreseen by the European competition law, as follows:

- Examples of normally prohibiting provisions <u>which are, however, exempt</u> in view of the Regulations:
- **Obligation of the supplier to sell the contractual goods solely to the selected dealers.**
- **Obligation of the dealer to purchase the contractual goods only from the supplier.**
- **Dealers are forbidden to sell to other dealers who are NOT part of the selective distribution network.**
- **Dealers are forbidden to actively seek customers outside their assigned territory.**
- Examples of <u>nonetheless prohibited provisions</u> also in view of the Regulations:
- **Prohibition to sell to end users** (except to wholesalers).
- **Prohibition to meet unsolicited orders from customers located outside their authorized area.**
- **Prohibition to sell via the Internet [2].**
- **Failing to provide warranty to customers not reached by the selective distribution network [3].**

It is important to specify that the provisions contained in the exclusive distribution agreements, which include those on exclusive sales and/or purchases and those on competition limitations, only concern ".... *the contractual relations between suppliers and their network approved distributors and, whilst defining what the parties to such agreements may or may not undertake to do in relations with third parties, **they do not, in contrast, serve to regulate the activities of such third parties who can operate in the market outside the framework of distribution agreements"*** **[4].**

[2] *"A contractual clause which, in the context of a selective distribution system, requires the sale of cosmetics and personal care products to be made … in a physical space where a qualified pharmacist must be present, with consequent ban on the use of the internet for those sales, amounts to a restriction"* banned under Art. 101 TFEU "*... if, following an examination of the ... legal and economic context.. it is apparent that as regards to the properties of the products at issue, such clause is not objectively justified". (*ECJ Ruling of 13.10.2011 - case C-439/09).

[3] " ... a guarantee scheme under which the supplier of goods restricts the guarantee to the sole customers of his exclusive distributor places the latter and his retailers in a privileged position as against parallel importers and distributors and, consequently, must be regarded as having the object or effect of restricting competition ... " *(*ECJ 10.12.1985 - case 31/85).

[4] EU Court of Justice 15.02.1996 Case C-309/94 - Nissan France SA and others

Hence, as an example, if the distributor TOM violates the contractual ban imposed by the supplier DICK to sell to the independent dealer HARRY, DICK can take legal action against TOM but not against HARRY.

To conclude on this subject: it is not legitimately possible to ban a dealer part of an exclusive distribution network from meeting unsolicited orders of other dealers and neither - except in the case of a wholesaler - from selling to end consumers (in both cases, presumably, through the internet).

Furthermore, the existence of a selective distribution network cannot oppose other third party operators engaged in parallel imports, except for those below described cases in which arises an infringement of the trademark rights that, in the presence of a selective distribution network, must be legally protected.

Unfair competition and parallel imports

Our Italian Civil Code defines the specific cases of unfair competition under Art. 2598, paragraph 1 and 2. Paragraph 3, instead, contains a general provision according to which constitute unfair competition, and as such prohibited, all residual assumptions consisting in ***"… acts conflicting with the principles of professional integrity and apt at damaging someone else's company …".***

Examples of trade practices *possibly* arising in correlation with parallel imports:

- Violation of public law rules (antitrust laws, sale of smuggled goods, or VAT evasion)
- Misleading advertising: the parallel importer presents himself as, for instance, "*Technical Sony sales and service centre*" or "*Distributor for Sicily of Panasonic Air Conditioners*" etc., so as to generate confusion in the customer about the products' actual origin and operator's identity.
- Alteration or removal of product identification codes affixed by the manufacturer [5].

In conclusion: in cases of unfair competition it is possible to oppose parallel imports, but only **in specific cases.**

Parallel imports from non-EU countries

In the case of parallel imports of goods from a country outside the European Union (or the "European Economic Area" or "EEA", which practically extends our area of interest consisting of 27 Member States to also include Iceland, Norway and Liechtenstein), the holder of a trademark has the right to assert his rights and oppose the introduction in the European Union of products bearing his trademark, even if the same were legitimately put on the non-EU market by himself or with his consent [6].

[5] Ruling of 31.07.98 by the Appeal Court of Milan, published on: GADI - Giurisp.za Annotata Diritto Ind.le - n. 3942.

[6] This principle has been last reaffirmed by the Art. 7.1 of Directive 2008/95/EC, which will be discussed later.

In other words, in these cases, the holder of a trademark does not exhaust his rights on the trademark with the placing on the market, for the first time by unauthorized third parties, of the products in non-EU area, but he can also subsequently exercise them.

The Member States are not free to legislate on the subject and, thus, they must respect the principle, according to which, if a product was introduced in the EEA market area without the trademark holder's consent, the holder may oppose the resale of said product in this market [7].

Any consent given by the trademark holder to the parallel import, please note, must be specific and explicit: a holder of a trademark who, for example, sells a batch of 1000 TV sets in China to an Italian exporter/importer, may well consent that these products are introduced in the European Economic Area, but said consent applies only to those particular models of TV sets and for that specific batch of 1000 TV sets: in other words, the consent, in addition to being explicit, must be specifically given batch-by-batch and on product's model-by-model basis [8].

The tacit consent of the trademark holder to the parallel import from a non-EU country is possible, but only in exceptional cases: it can be inferred "*from facts and circumstances prior to, simultaneous with or subsequent to*" and the case-law limits rather a lot these cases. In particular, in fact, a tacit consent SHALL NOT EVER BE DEDUCED from the following circumstances [9]:

- Failure to communicate to all subsequent non-EU area buyers of his products his opposition to their being put on the market inside the European Economic Area.
- Failure to indicate on the products that their sale inside the EEA area is prohibited.
- Transferral by the trademark holder of the property on products bearing the same brand without imposing any contractual restrictions, in the presence of a law applying to the sale agreement according to which, in these cases, the transferral does necessarily include the unrestricted right to subsequently resell the products in the EEA area.

Finally, it is IRRELEVANT, for the purposes of the right by the trademark holder to oppose the import into the EEA area of products of non-EU origin, that:

- the operator importing the products branded in the EEA area is not aware of the opposition by the trademark holder of their being placed for sale in the EEA market;
- the authorized dealers and wholesalers did not impose to their own customers the same contractual restrictions set out by the trademark holder to prevent the products from entering into the EEA market.

[7] EU Court of Justice - Silhouette case C-355/96 of 16.97.1998.

[8] EU Court of Justice - Sebago case C.173/98 of 1 July 1999.

[9] EU Court of Justice - Levi-Strauss case C. 414/99 of 20.11.2001.

In conclusion, in the case of products coming from non-EU countries it is possible to oppose parallel imports on the basis of trademark protection, which in these cases is not "exhausted" with the first placing on the market of the product.

Parallel imports from EU countries

Within the EEA area is in force the principle of the exhaustion of trademark rights, as set out in Art. 7 paragraph 1 of EC Directive 2008/95 "*The trademark shall not entitle the holder to prohibit its use in relation to goods which have been put on the market in the Community under that trademark by the holder or with his consent*".

To use an example, the Volkswagen group, as said before, cannot exercise its right on its own-brand cars for opposing the parallel imports by independents Italian operators of its own cars from Italy to Germany, while it could rightly oppose the imports into Germany (or Italy) of its own-brand cars coming from Mexico.

However, the second paragraph of the directive (Art. 7.2) contains an important exception: "*Paragraph 1 shall not apply where there exist legitimate reasons for the holder to oppose further commercialisation of the goods, especially when the conditions of the goods are modified or altered after they have been put on the market*".

As to the above "*legitimate reasons*", the consolidated case-law of the European Court of Justice, taken up by the Member States' national courts, states that, in the case in point, the trademark holder can oppose the introduction into a Member State of products of his own brand coming from another Member State only in the presence of three concurrent conditions:

(1) The existence of a **selective distribution network**, irrespective of whether or not it operates on an exclusive licensing agreement (which I will shortly deal with), containing a correlated, legitimate sales ban to dealers outside the network,

(2) The marketed branded product must be **a luxury or prestige product** due to its intrinsic characteristics and/or for its presentation and marketing approach to customers (e.g., fashion products, cosmetics, technological products; always provided that they are high-end products followed by high quality service);

(3) **A prejudice, actual or potential**, must subsist against the product's aura of luxury or prestige as a result of its being marketed through parallel import.

In concurring these three conditions, the supplier and trademark holder DICK, in pursuance to Art. 7.2 of the aforesaid directive, can assert that the product has never been legitimately put on the market and, consequently, the trademark rights were never exhausted; he can therefore take action not only (contractually) against the dealer TOM who has violated the agreement, but, on the basis of trademark protection, also directly against the third party HARRY who has purchased the products from the latter to import them into another Member State.

It is up to the party that invokes the exhaustion of Community trademark rights to prove that the products were at the time put on the market in the EEA area with the consent of the trademark holder, while it is up to the latter to prove to the contrary of the above circumstances.

Lacking the condition (2) (luxury or prestige product) and/or condition (3) (prejudice, actual or potential, against the brand), DICK will instead be able to act exclusively against TOM for breaching the exclusive distribution agreement, but, on the basis of the trademark, not against the third party HARRY [10]. In fact: "... *the provision, in a sale agreement between the trademark holder and a trader established in the EEA area, banning the resale in the same territory does not exclude the possibility of products entering into the EEA market in accordance with Art. 7, paragraph 1 of Directive 89/104/EEC and, therefore, it does not constitute the exhaustion of the holder's exclusive right in the event of resale in the EEA area in violation of the ban*" [11].

Moreover, lacking one or more of the 3 afore mentioned conditions: "*A trademark holder cannot oppose the free circulation in Italy of products previously marketed by himself, or by persons legitimately entitled to it, in a EU country*..." [12].

It should furthermore be noted that:

- the mere addition on the label of a product imported in parallel from another Member State of information necessary to comply with the legislative requirements of the Member State of import does not constitute the exhaustion of Community trademark rights [13].
- The liquidation sale of branded products as part of a bankruptcy proceeding does not exclude the exhaustion of the trademark [14].
- The mere fact that the trademark affixed to a product has been registered as service mark by its holder does not prevent the application of the principle of the exhaustion of the holder's rights in relation to such product [15].

To conclude: in the case of parallel imports of products coming from another EU Member State, it is possible to oppose those on the basis of trademark protection only in some specific cases in which, exceptionally, there is no exhaustion of trademark rights for the existence of "legitimate reasons" (as foreseen by Art. 7.2 of Directive 2008/95/EC).

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[10] EU Court of Justice - 04.11.1997 no. 337 Christian Dior / Evora BV; 12.12.1996 no. 19 Yves Saint Laurent Parfums/ Galec.

[11] Cassation - 21.12.2007 no. 27081.

[12] Cassation - 18.11.1998 no. 11603.

[13] EU Court of Justice - 20.03.1997 no. 352.

[14] Tribunal of Milan - 18.06.2004 Redaelli / New Street.

[15] Tribunal of Milan - 10.04.2008 TIM / M. Campiello.

Parallel imports from EU countries: violation of the licensing agreement

Let us now examine this, rather recurring, case: TOM, who manufactures and markets luxury and/or prestige products in Germany upon license from DICK, holder of the trademark, violates the licensing agreement imposing him to not market the licensed products through low-price retail channels, and sells them to HARRY's hard discount in Italy: DICK has the right to oppose the sale of licensed products to HARRY, with whom he has no direct contractual relationship. This on the basis of Art. 8.2 of Directive 2008/95/EC, according to which the licensor/trademark holder does not exhaust his trademark rights but, rather, he can also oppose them to third parties, other than the licensee, when there is a violation of the licensing agreement provision concerning "*the quality of the products manufactured or the services provided by the licensee*".

In this regard, it is worth remembering that in the COPAD-DIOR case [16] the Court of Justice ruled that the licensor Christian **Dior**, following the illegal sale in France by the licensee and selected reseller **SIL** of luxury lingerie items outside the selective distribution network to the third party **COPAD** (a discount retailer), could also enforce its trademarks rights against COPAD (thus preventing their being marketed) both under the licensing agreement, in having the licensee altered the "prestigious quality" of the licensed product (pursuant to Art. 8.2 of Directive 2008/95), and anyhow, in alternative, by considering the loss of prestige a "*legitimate reason*" for ruling out the exhaustion of Community trademark rights (pursuant to Art. 7.2 of EC Directive 2008/95).

In conclusion: another case where it is possible to oppose the parallel import of products, even if coming from another EU country, it is when the manufacturer/licensee, in violation of a licensing provision regarding the marketing of products, has altered the original quality/prestige of the products imported in parallel.

Parallel imports of repackaged products from EU countries

The ECJ has ruled in several cases that, following the exhaustion of Community trademark rights (pursuant to the previously said Art. 7.1 of EC Directive 2008/95), the holder of a trademark right cannot invoke it to oppose the parallel imports by an unlicensed importer who "... *has repackaged the product and reaffixed the trademark thereto without the holder's authorization"*, since this operation does not in itself represent such a modification or alteration to the product as to constitute a "legitimate reason" preventing the exhaustion of the trademark rights (pursuant to Art. 7.1 and Art. 7.2 of EC Directive 2008/95) [17].

[16] EU Court of Justice - Ruling no. 59 of 23.04.2009.

[17] EU Court of Justice - Ruling no. 427 of 11.07.1996.

An exception to this principle is constituted by the case of pharmaceutical products: in such an instance, in fact, the repackaging may deprive the end user of the presentation, dosages and instructions necessary for the safe use of the medical product in accordance with the original aim and presentation created by the trademark holder; in such cases, it is thus presumed that repackaging does constitute a "legitimate reason" preventing the exhaustion of the trademark rights, except when proven otherwise by the parallel importer whom is required, in such a case, to produce a specific set of circumstances identified by the ECJ's case-law.

In conclusion: the mere repackaging and trademark repositioning by the intra-EU parallel importer are permitted except, in the absence of proof to the contrary, cases of pharmaceutical products.

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The various hypotheses examined in this article are highlighted and summarized in the following scheme (further details on this and other articles published on this magazine are available on my professional website: www.avvocatoiorio.it):

REGULATIONS	PARALLEL IMPORTS
Antitrust rules	**As a general principle it is NOT possible to oppose parallel imports within the EEA (European Economic Area)**
Selective distribution networks	**It is NOT possible to prevent dealers who are not part of the selective distribution network from importing in parallel products purchased from other dealers in the network.**
Unfair competition (Art. 2598, Civil Code)	**It is possible to oppose parallel imports only in specific cases**
Trademark protection and imports from non-EU countries	**It is possible to oppose parallel imports from non-EU countries on the basis of the trademark rights (= no exhaustion of trademark rights)**
Trademark protection and imports from EU countries	**They can be opposed on the basis of trademark protection only in some specific cases in which, exceptionally, there is no exhaustion of trademark rights for the existence of "legitimate reasons" (Art. 7.2), or because a licensee through a banned marketing action has altered the quality/prestige of the products (Art. 8.2); whilst the mere repackaging and the trademark repositioning by the parallel importer within the EU are permitted except, in the absence of proof to the contrary, cases of pharmaceutical products).**

Maurizio Iorio (Attorney at law)