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SPAIN: LUXURY BRANDS DESERVE LUXURY ONLINE SALES PLATFORMS

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In a decision of 22 April 2016, the Spanish Supreme Court has clarified the circumstances in which the commercialization of original luxury products through Internet sale platforms outside a selective distribution system could be relied on by the trademark owner as precluding an exhaustion of the trademark rights.

The plaintiffs, various companies of the L'Oréal Group, like Helena Rubinstein, The Polo Lauren LP, Lancôme Parfums, and others ("L'Oréal") sued the company Websales Ibérica, S.L. ("Websales") for trademark infringement and unfair competition before the EUTM Court in Alicante. Websales relied on the exhaustion principle: the goods that were available on its website had been legitimately placed by L'Oréal on the EU market. L'Oréal, however, said that exhaustion could not apply as there were legitimate reasons for it to oppose the further commercialization of the goods. That is the legal exception to the exhaustion principle.

According to L'Oréal, the website of the defendant did not provide it with a specific, exclusive place confined to their luxury products, which were offered for sale together with other consumer goods. The defendant's platform continuously offered discounts and special promotions, which gave the website the appearance of a cheap market. The products for sale were located by trademark in alphabetical order, without any differentiation between luxury and common products. Moreover, the website neither offered official advertising for the claimants' trademarks, nor provided the complete assortment and new items launched under the brands. The defendant's website also lacked an expert and personalized customer support service and a brick-and-mortar shop specialized in luxury cosmetics products and perfumes.

The EUTM Court dismissed the action in first instance in its entirety (Decision 54/2013, of 11 March 2013). The reasoning of the EUTM Court was that the conditions imposed by L'Oréal on its authorized distributors could not be automatically transferred to and be binding also for on line sales, because some of these conditions were appropriate only for the sale in brick-and-mortar shops, for instance the availability of testers in the shop. The Court considered that L'Oréal had not proven the existence of particular agreements with the authorized distributors referred to the online sale conditions and therefore it was not possible to determine

that the commercialization conditions of the defendant were contrary to the L'Oréal selective sales conditions and were damaging the reputation of its luxury brands.

This was overturned in second instance (Decision 389/2013 of 3 October 2013), providing a broader interpretation of the "legitimate reasons" exception considering that **any conditions** imposed on the L'Oréal distributors for the sale in physical shops were applicable and enforceable also in case of online sales, and where they were not observed, the trade mark owner had legitimate reasons to oppose the further commercialization.

The Supreme Court has struck a balance between the enhanced protection deserved by luxury brands and the protection of free competition in the market. According to the Supreme Court, the on-line commercialization of the products by third parties outside the selective distribution system does not constitute *per se* a legitimate reason for excluding exhaustion of rights. Moreover, the conditions laid down in the selective distribution contracts are not always suitable to protect the reputation of well-known trademarks and, consequently, a case-by-case analysis must be made to avoid the "legitimate reason" exception becoming a backdoor for unwarranted competition restrictions.

In short, only under certain circumstances, the use of online platforms for the sale of luxury products can harm the allure and prestigious image of the products or their aura of luxury. Some of these circumstances are, according to the Supreme Court:

- (1) the use of a domain name that could be associated with a "low cost" marketplace, or with the sale of discontinued or defective products. In the case at stake the defendant used the term "outlet" as part of the domain name (www.outletbelleza.com);
- (2) the use of a purely alphabetical location system for the brands available on the website;
- (3) the lack of a full assortment, as well as of new products launched under the brand;
- (4) an insufficient stock availability of products; and
- (5) the lack of certain sale conditions like the possibility of returning the products with full reimbursement of the purchase price.

Under the Supreme Court decision, luxury brands in Spain will be better protected against grey sales made through online sales platforms. However, in order to ensure the success of a potential infringement action, it is advisable that luxury brands previously shield the selective distribution system with comprehensive contracts, covering also the specific conditions that must be fulfilled by the authorized distributors in case of online sales. Moreover, these specific conditions should be reasonably accurate to guarantee the protection of the trademark reputation in order to be compatible with the rules of free competition.

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