

Germany - Higher Regional Court Düsseldorf sets limits for the exhaustion of trademarks for luxury goods

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In Germany, the Higher Regional Court Düsseldorf decided that trademark rights were not exhausted in a case where luxury cosmetic products were offered at a German discounter. The Court held that the offer of the luxury cosmetic products at the discounter stores as well as at the discounter's online-shop would be detrimental for the image of the claimant's luxury cosmetic brands (Decision of 6 March 2018 in Case I-20 U 113/17).

The claimant Kanebo commercializes luxury cosmetic products protected by the EU trademarks "Kanebo" and "Sensai" by way of selective distribution. It had become aware that a German discounter real,- offered its original "Sensai" and "Kanebo" branded luxury cosmetic products in one of its stores in Cologne. The store in Cologne is a pilot project store with a more premium presentation of the products compared to the other German real,- stores. The claimant's cosmetic products were displayed in a special counter, but in the surroundings at the store a variety of different goods was offered ranging from food to household articles and discounter cosmetics. real,- also offered the "Sensai" and "Kanebo" products at its online-store side-by-side to electronic articles, household goods, clothing and other cosmetic products. The online-store is made up in a manner that the prices of

many products are reduced which is shown by the original price being struck through and the new price being added in red coloring. Financing is available for purchases at the online-store and customers may collect points for the Payback loyalty program.

Kanebo requested with its preliminary injunction that real,- ceases and desists from offering products branded with “Kanebo” and “Sensai” at its stores within the EU as well as at its online-store.

The request for preliminary injunction was initially rejected by the District Court Düsseldorf. The goods were originally put on the marketplace in the EU with Kanebo’s consent. The District Court generally accepted that a threatening damage of the image of luxury products could also be considered a legitimate reason for the trademark owner to prohibit the further commercialization of its products in accordance with Art. 15 Para. 2 EUTMR. However, the District Court found that Kanebo failed to show that the circumstances of the sales at the real,- store in Cologne as well as at the real,- online-store were such that they were likely damaging the image of Kanebo’s luxury products.

Kanebo successfully appealed this decision to the Düsseldorf Higher Regional Court. Unlike the District Court, the appeal court followed Kanebo’s arguments and accepted that Kanebo had legitimate reasons to oppose the online sales as well as the sales in real,-’s offline store based on Art. 15 Para. 2 EUTMR.

It argued that the existence of a legitimate reason must be examined carefully, but that the requirements for it must not be overstretched. In particular, it was sufficient that damage to the reputation only threatens to occur.

It referred to the fact that the European Court of Justice (ECJ) repeatedly acknowledged and strengthened the interest of the owners of prestigious brands to protect their luxury image. The Court in particular relied on the ECJ’s decision in the cases Copad vs. Dior (Decision of 23 January 2009 in Case C-59/08) and Coty Germany (Decision of 6 December 2017 in Case C-230/16) which both strengthened the position of luxury brand owners. In Copad vs. Dior, the ECJ allowed a trade mark owner to invoke its rights against a licensee because of the licensee’s violation of a license agreement provision prohibiting sales to discount stores, where those sales affect the reputation of the goods to such an extent that their quality is called into question. In Coty Germany, the ECJ ruled that EU

competition law did not prevent suppliers of luxury goods from prohibiting their dealers to sell their goods via general sales platforms of third parties. According to the Court, it could consider both decisions as they were driven by the desire of a consistent approach to the conditions under which there may be a detriment to the luxury image of a trademark.

Applying the standards set in these decisions, the Court held that the sales environment described initially at the real,- online shop as well at the local stores threatened to damage the luxury image of Kanebo's products significantly.

The decision strengthens the position of luxury brand owners in Germany when acting against potentially image damaging offerings outside of their selective distribution networks.