



Department of Management
Teaching *Fashion, Luxury and Made in Italy*

COUNTERFEITING AND IMITATION IN
DIGITAL SALES:
AN ANALYSIS ON THE LUXURY INDUSTRY

SUPERVISOR:

Prof. Massimiliano Granieri

CO-SUPERVISOR:

Prof. Roberto Pardolesi

CANDIDATE:

Matilde Calabresi

ID 700900

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INTRODUCTION

The luxury sector in fashion has always been a driving force for our economy, a position acquired also thanks to a careful positioning of products within the national distribution chain. The choice to have dedicated and recognizable spaces inside large boutiques or to display products only in owned stores has always been the strong point of the luxury sector both from the point of view of operational marketing and communication.

When in the early 2000s digital sales became widespread and massive within the fashion industry, the luxury segment in particular was not unprepared for the change. Leveraging the experience gained previously in distribution and implementing the Supply Chain in the production process, the main luxury brands created virtual spaces of their own that were simultaneously both a digital showcase and a new distribution channel.

In concomitance with the creation of the dedicated websites, a community of users and followers was formed, who were not only consumers of the brand's products, but also used the computer medium, with its many tools, to comment on the different collections and to stay up to date on the state of the art of the new collections for the seasons to come.

However, the entry into the digital sector has not only been a positive phenomenon, especially for luxury fashion, which has found in the internet world a problem that could threaten the value achieved so far by the respective brand: counterfeiting.

Clearly, this phenomenon has always existed in the history of the sector, but with the advent of digital technology it has become considerably more acute. It is enough to think of how, thanks to the globalisation of markets and the technological advancement of the means of communication and transport, products can be marketed all over the world while maintaining control over the parent company or subsidiary of reference.

The increase in the speed of dissemination of products has also led to an increase in the incidence of online counterfeiting in the ways and means that will be explored in the central sections of this work. Particular attention is paid to the damage that counterfeiting does not so much because it denies profit to the brand but how it contaminates the luxury brand with the circulation of products that are not approved by the manufacturing company and how the reputation of the brand is affected.

At this point the main aspects of e-commerce will be analysed, focusing on the advantages and disadvantages of this phenomenon that characterizes the contemporary era.

Finally, the case of the Supreme brand in Italy will be analysed as representative of the phenomenon of counterfeiting at the limit of legality in jurisprudence; which leads to a lack of legislation symptom of the need for a quick legal economic review by the bodies in charge of supervision.

CHAPTER I

COUNTERFEITING PHENOMENON

1.1. Counterfeiting phenomenon: overview

With the increase of economic globalization processes, global markets for industrial products and services are revealing more and more high levels of complexity and choice compared to several economic factors: a wide range of brands are available for each category of products, the innovations in the services offered, new customer purchasing behaviour, the more complex determination of the changing boundaries of market segments and the progressive saturation of the market demand.

The pursuit of competitive advantage in dynamic competition engages the enterprise in the development and realization of an effective marketing strategy. It is oriented towards product diversification, in which the brand plays a key role in order to give to consumers the opportunity to associate a specific firm to specific services and goods.

As has been properly observed, from an economic and business point of view, the brand is inclined to assume a complex role, whose “distinctiveness” represents only the first element of that peculiar link that the brand is able to establish between a given supply and a given demand.

There is no doubt that the greater the power of a brand, the more likely it is that imitation phenomena will be triggered. According to the well-known Schumpeterian scheme, when a new product achieves its success, it can be imitated by competitors, who place their trust in a follower position. In a regular market scenario, where the imitation of an innovative good has happened, the consumer finds himself faced with more or less similar offers from different company brands¹.

¹ Patrizia Silvestrelli: *Problematiche socio-economiche dei processi produttivi e distributive di beni contraffatti*. Franco Angeli (2017)

Another situation occurs when a well-known and highly requested product is reproduced (almost the same) and is offered on the market with the “counterfeit” label. This circumstance ignores the traditional rules of the market and generates competitive dynamics that compromise the efficiency of the production and distribution systems of the companies that operate in the legality.

In order to understand the phenomenon of counterfeiting and to identify its characteristics, it is necessary to point out some important factors that have helped the birth and expansion of the counterfeiting activity in our country².

Firstly, if we think of the individual company, the opportunity that has often led an entrepreneur to manufacture counterfeit articles was the state of the economic crisis: in order not to end the activity, they have chosen a fraudulent management. The aim is to offer its (counterfeit) products directly on the retail market, or to work as a sub-supplier for larger and more profitable companies.

In addition, the labour market trend has been such that it has created in crisis areas a labour force willing to provide clandestine work at low prices.

Another important aspect is the production strategy applied by many successful and regular enterprises, which reduced the production processes by relocating and/or outsourcing activities, initially to third-party units in same areas, then to companies in evolving countries.

This has allowed the sub-contracting companies to acquire that know-how and skills needed to produce the goods independently and thus become direct competitors of the legal firms, even in a non-legal manner.

Another reason is the technological innovation that has made the equipment, the materials and the processing methods able to reproduce the peculiar characteristics of the goods recognizable by the final consumer and to duplicate them in a shorter time and with a minimum effort.

² Mario Centorrino, Ferdinando Ofria: *L'economia della contraffazione: un fallimento di mercato*. Rubbettino (2004)

Finally, we have to take into consideration the dynamics of the economic situation, which is characterised in several periods by a considerable and constant inflation.

This has reduced the purchasing power of households and stimulated the demand for cheaper commodities.

From the demand side, however, the fake market has not suffered any significant crises because all articles (even low value ones) were copied illegally and put on the market, where he used to find some interested buyer sooner or later³.

1.2. What is counterfeiting?

“Counterfeiting” means in the broadest sense reproducing a good in such a way that it is mistaken for the original.

The term should be seen in relation to industrial property rights. Counterfeiting is the activity of a person who manufactures and/or sells a product with shapes, characteristics and brands similar to an original, for the production of which have been carried out studies, research, advertising campaigns of the brand and the quality of the product.

Instead, piracy is the activity of those who duplicate ingenious products (books, CDs, video tapes, etc..) without recognizing rights to the author⁴.

In this respect, the goods which are violating the intellectual property rights are:

- counterfeit in the strict sense, as they bear the illegal reproduction of trademarks and other registered distinctive marks;
- pirated, i.e. produced without the consent of the copyright holder or of the related rights, or of the holder of the design or model rights, whether or not it

³ Patrizia Silvestrelli: *Problematiche socio-economiche dei processi produttivi e distributive di beni contraffatti*. Franco Angeli (2017)

⁴ Federconsumatori Milano, Camera di Commercio di Milano, Maria Grazia Montali Celada, Francesco Castellotti: *Consumatori e contraffazione*. (2019)

is registered under national law, or by a person duly authorized by it in the production country;

- infringes rights relating to a patent, a supplementary protection certificate, a national or Community plant variety right, a designation of origin or geographical locations.

Counterfeiting activities involve:

- products to which a trademark or other mark has been affixed without authorisation, identical to another validly registered trademark or which cannot be distinguished in its essential aspects from such a trademark and therefore infringes the rights of the owner of that particular trademark;
- any distinctive features (including logos, labels, brochures, etc.), even if presented separately, which are in the same situation as outlined previously;
- packaging containing separately presented counterfeit trademarks, which are in the same situation as above⁵.

Counterfeiting and piracy are illegal acts punishable by law⁶. Whoever produces and/or sells a counterfeit good commit a crime and whoever buys a counterfeit good is an accomplice to a crime.

⁵ Fortunato Lambiase, Cristiano Lenzini, Senato della Repubblica (Ufficio Valutazione Impatto): *Lotta alla contraffazione e tutela del made in Italy*. (14 July 2017)

⁶ Art.473 of the Penal Code states that “Anyone who, being aware of the existence of the industrial property right, counterfeits or alters trademarks or distinctive signs, national or foreign, of industrial products [c.c. 2569, 2575, 2584, 2592, 2594], or who, without being involved in the counterfeiting or alteration, makes use of such counterfeit or altered trademarks or signs, is liable to imprisonment for a period of between six months and three years and a fine of between 2,500 and 25,000 euros [c.p. 29]. Anyone who counterfeits or alters national or foreign industrial patents, designs or models, or, without being involved in the counterfeiting or alteration, makes use of such counterfeited or altered patents, designs or models, is liable to a term of imprisonment of between one and four years and a fine of between 3,500 and 35,000 euros.

The offences provided for in the first and second paragraphs are punishable on condition that the provisions of internal laws, EU regulations and international conventions on the protection of intellectual or industrial property have been observed [c.p. 474-bis, 474-ter, 474-quater, 517].”

Counterfeiting is a phenomenon that has its roots in the history of mankind; already in ancient Rome the seals that distinguished the works of the most famous artists and sculptors were imitated and falsified.

Subsequently, an edict of the Emperor Constantine was even falsified, using it to demonstrate that the Church had received from the Emperor the full powers consisting in the temporal supremacy over Rome and over the entire Western Roman Empire, as well as the donation of the Lateran Palace and numerous other real estate properties.

It is, therefore, a phenomenon that has always accompanied the path of man, evolving from simpler forms into more sophisticated ones according to the technical-scientific progress of humanity⁷.

Counterfeiting is, in fact, pervasive, global and the field of action of organized crime. It concerns all production sectors: from clothing to medicines and cosmetics, from food to design objects, from toys to mechanics. In this sense, it alters the rules for the functioning of the competitive market, damaging businesses that operate legally, and represents a danger to the safety and health of consumers⁸.

Economic theory shows that there is a close link between economic growth and intellectual property, which protection provides the tools to reward the activity generated by human innovation. In the case of Italy, this connection is particularly important, given the preeminent role played in our economic system by the manufacturing sector and the decisive contribution of exports in the formation of the national GDP and its stability in recent years.

In order to protect the wide perimeter of intellectual property, there are two separate areas:

- “industrial property”, which aims to protect trademarks, patents, models and designs against counterfeiting and falsification;

⁷ <https://www.cyberlaws.it/2019/contraffazione-e-pirateria-analisi-del-fenomeno-e-misure-di-tutela/>

⁸ <http://www.uibm.gov.it/index.php/lotta-alla-contraffazione>

- “copyright” means the protection of original titles or titles related to intellectual works of a creative nature (literary, artistic, musical, etc.)

From a regulatory point of view, the protection of intellectual property as a whole finds its foundation:

- in Legislative Decree no. 30 of 10 February 2005, the “Industrial Property Code”, which introduced organic and structured rules on the protection, defence and enhancement of the rights in question, reorganizing and unifying more than 40 legislative texts adopted to bring Italian rules up to standard with regulations of the European Union and the provisions of the international conventions to which Italy is a member.
- in Law No 633 of 22 April 1941 on the protection of copyright and other rights related to the exercise of such rights⁹;
- essentially in the penal code, for the punitive part¹⁰.

Further regulatory sources are also used to safeguard the so-called “made in”, i.e. the origin, source and quality of the products, as well as the “safety of the products”, i.e. the correspondence of the technical/constructive characteristics of the goods with the standards imposed by the Community legislator¹¹.

⁹ As last revised by Legislative Decrees No 22 of 21 February 2014 and No 163 of 10 November 2014.

¹⁰ The reference norms are contained, in part, in Title VII of Book II of the Penal Code *Crimes against the public faith* (articles 473 et seq.) and, in part, in the following Title VIII *Crimes against the economy*. (Articles 514 et seq.).

¹¹ Fortunato Lambiase, Cristiano Lenzini, Senato della Repubblica (Ufficio Valutazione Impatto): *Lotta alla contraffazione e tutela del made in Italy*. (14 July 2017)

1.3. Counterfeiting post-globalization: new models of consumption

During the 1990s and 2000s, the phenomenon of economic globalization¹² emerged with new characteristics, which subsequently modified the main macro-economic parameters and the strategies of companies of all sizes. There is no reason to suppose that the behaviour of counterfeiters is to some extent influenced by situations of illegality, as a consequence of economic globalization and which can be identified in sectors of society and politics of different countries, including Italy¹³.

To have a deeper insight on the evolution of counterfeiting processes, it would be useful to briefly recall some of the main peculiarities of globalization which, in addition to the alterations of the industrial and social systems that have occurred in Italy, have contributed to a widespread counterfeiting.

- *Changing in sectoral production units:*

In line with the development of turnover of Italian products with trademark in the national and international markets, companies start implementing a production strategy geared towards *outsourcing*¹⁴ and with a wide production decentralization¹⁵. This has brought to the creation of industrial districts, in which there is a division of labour among companies, each of which is specialized in one or a few working phases¹⁶.

Globalization then encouraged companies to implement outsourcing policies outside national frontiers, with the aim of exploiting the economies comparing the advantages localization in one country with those of another. This has led to the formation of

¹² Globalization is a process through which markets, production, consumption and even lifestyles and ways of thinking are linked on a global scale, thanks to a constant flow of exchanges that makes them interdependent and tends to unify them. It is the result of a long-lasting process and in the most recent thirty years it has had a strong acceleration.

(http://www.coris.uniroma1.it/sites/default/files/L2_PEIS17_globalizzazione.pdf)

¹³ Loretta Napoleoni: *Rogue Economics*. Seven Stories Press (2008)

¹⁴ Outsourcing consists of the use, by companies or authorities, of other companies to carry out certain parts of their production processes or specific phases of the support procedures.

¹⁵ Giancarlo Corò, Roberto Grandinetti: *Strategie di delocalizzazione e processi evolutivi nei distretti industriali italiani*. (1999)

¹⁶ Enzo Rullani, Giacomo Beccatini: *Sistema locale e mercato globale. Economia e politica industriale*. (1993)

international sub-contracting clusters, which are spread worldwide, allowing the diffusion of illegal parallel transactions.

- *Political and institutional transformations:*

Economic systems have been affected by a number of factors, such as global trade liberalisation and deregulation; the opening up to international trade and investment by several countries (Asians and Africans and ex-socialist Europeans); different changes in the monetary and financial systems; the constitution of the European Common Market.

Moreover, the growth of international trade has concerned not only the distribution of goods and services, but also the international relocation of production factors (first of capital and then even of workers).

- *Technological progress and the dissemination of knowledge:*

Technological innovations, in particular the new digital ones, have reduced communication and transport costs significantly, thus cutting physical and cultural distances across economic actors of different countries. Since it became easier to communicate, travel and move goods from one place to another, it became easier for entrepreneurs in many sectors to establish and manage business relationships across national borders¹⁷. The same applies to those who operate in the following sectors in criminal activity and trafficking.

However, it is clear that the processes of internationalization are no longer just about doing business, selling or purchasing goods or services, but also about non-material issues, such as learning, experiencing and knowledge.

In fact, in besides the huge number of flows of semi-finished and finished products that are moved from one country to another, there is also a complex set of knowledge and information flows that intersect and interact.

Actually, for each typology of production there is a technological and commodity “heritage of knowledge”, referred to entrepreneurs who intend to operate in a certain

¹⁷ Matteo G. Caroli, Andrea Lipparini: *Piccole imprese oltre confine: competenze organizzative e processi di internazionalizzazione*. Carocci (2002)

sector and in certain markets. The need to acquire a particular knowledge and know-how is therefore indispensable in order to achieve a satisfactory economic result¹⁸.

The three factors outlined above have increased the level of competition to global scale in all economic sectors. In this new and complex competitive environment, company value chains are structured and localized in different countries (as a consequence of outsourcing processes). Meanwhile, there are dynamic and heterogeneous phases market, in which components, products, raw materials, logistical structures, technical knowledge, organizational formulas, etc. are supplied and demanded.

As a result, there is an increase in the possibilities of developing a specific production or commercial activity - by being part of a given chain or network of companies - also for the operators who deal with counterfeiting.

This has allowed the introduction in global markets of a large number of counterfeit articles, many of which are distributed through the official commercial channels. These articles are placed together with other products (belonging to dissimilar product categories) and are basically similar to those offered by firms with a well-known brand, but so as to create confusion among less careful consumers.

The reputation achieved by leading brands and the increase in demand for these products have led counterfeiters to enter the market, since they are attracted by the opportunity of realizing high profits.

Moreover, the constant rise at international level of the consumer demand for counterfeit goods - widely considered a true status symbol in a consumerist society - is encouraged by two factors: the labour and low-cost raw materials and technological progress which allows the accurate reproduction of famous brands through the use of new computer software and machineries.

The result is a system parallel to the legal one, in which competition - in terms of production and product price - occurs between companies that operate in the “fake”

¹⁸ Rosa Maria Paniccia, Renzo Carli: *Psicologia della formazione*. Il Mulino (1999)

market, generating competitive dynamics that also involve companies that operate in the “regular” market¹⁹.

1.4. Counterfeiting in the clothing sector

Companies in the clothing sector, with all of their internal production sub-sectors, have been suffering unfair competition by illegal counterfeiting for a long time. According to the UIBM²⁰ survey (2012), 72% of acquisitions of forged goods concern the category of clothing.

This can be explained on the assumption of two aspects: the production system of counterfeit goods and the level of quality that the consumer perceives.

Regarding to the first aspect, we can start analysing the abovementioned *outsourcing* of production to an international level, which has caused the development of “parallel imports” of fake products from the third-party companies.

In fact, by using the know-how and materials employed for the quantities of goods regularly requested, they manage to offer on the market goods which are similar to the original ones, so much so as to make the identification very difficult, thus confusing the consumer.

As far as the second aspect is involved, a relevant fact concerns the different relationship of a part of the public opinion with imitative articles: not everybody believes that counterfeit articles are always characterized by a low quality and that they show evident differences with respect to the original product²¹.

This is confirmed by the irregular articles confiscated by the Guardia di Finanza, in which the quality seemed to be sufficiently good to presuppose the direct involvement of those firms that produce the original garments, and which are usually based in countries where the cost of labour is much more favourable.

¹⁹ Patrizia Silvestrelli: *Problematiche socio-economiche dei processi produttivi e distributivi di beni contraffatti*. Franco Angeli (2017)

²⁰ Ufficio Italiano Brevetti e Marchi

²¹ A typology of “fakes” in fashion products can be found in Canestrai (1998).

This is also supported by the data emerging from the UIBM survey (2012) on the Italian consumers' perception of the quality level of counterfeit goods, where as many as 51% of the respondents do not consider that the quality of fake clothing items is worse than those of the original ones.

A significant finding also refers to the quality/price ratio of the counterfeit product in relation to the original one, which is estimated to be the same by 47% of consumers and inferior to 36%.

However, 49% of buyers are dissatisfied with the lifetime of the counterfeit goods.

The degree of disappointment of almost half of the people interviewed may be due to the fact that the product has not fulfilled their expectations, or it has been somehow harmful to your health.

In this regard, one of the more risky factors when purchasing an item of garment (whether it be laundry or a pair of footwear) made in a “non-regular” manner is constituted by the simple fact that these products are made with materials that may cause damage to health. Furthermore, the customer often does not worry about the hygienic conditions of the environment in which a given article is manufactured²².

²² In the craft workshops where the Made in Italy imitations are manufactured, the working conditions are disastrous and toxic materials and hazardous substances are often used. For example, cotton garments are often bleached using harmful substances that are banned in Europe. Sometimes the indications given on the labels of products from countries other than Europe are not complete and correct. This is the case of odorous amines which are highly toxic substances and are widely used in foreign products.

Another case is that of the uppers of very bad plastic (sold as real leather) that are distorted by the sweat causing serious damage and allergies (Izzi and Colosimo, 2008).

In order to avoid these inconveniences, the consumer should purchase from licensed retailers, avoiding too cheap prices, and check the labels on which there are shown all the material used for an item of clothing, as well as the types of colour, the treatment, the substances and dyes that have entered the production cycle.

1.5. Causes of the phenomenon

The United Nations Interregional Institute for Crime and Justice Research (UNICRI)²³ has drawn, in an interesting study on counterfeiting, the map of the factors considered to be decisive for the expansion of this phenomenon²⁴.

On the economic side, reference is made first of all to the general trend of devolving the production of counterfeit goods to Asian and Eastern European countries.

The main distribution channels for articles infringing intellectual property rights are based on the employment of non-European Union nationals who market the above-mentioned products produced mainly in itinerant form and on the use of the Internet that allows to divide the traffics avoiding concentrating the illicit goods in places that can be attacked by the Police Forces.

The possibilities offered by the counterfeit market are, in particular, an important opportunity for criminal organizations, which are increasingly investing in this area, to make their mark.

In this respect, the UNICRI report identifies the main factors of attraction for criminal organizations with reference to counterfeiting.

First of all, in addition to the already known low social alarm determined by the fake market, the high profits achievable with the circulation of counterfeit goods do not contrast with the high risks for the criminal organizations, even though the harmfulness

²³ The United Nations Interregional Crime and Justice Research Institute (UNICRI) was established in 1968 pursuant to Economic and Social Council Resolution 1086 B (XXXIX) of 1965, which urged an expansion of the United Nations activities in crime prevention and criminal justice. The Institute is a United Nations autonomous institution and is governed by its Board of Trustees.

Working within the broad scope of its mandate to design and implement improved policies and actions in the field of crime prevention and control, the mission of UNICRI is to advance justice, crime prevention, security and the rule of law in support of peace, human rights and sustainable development.

UNICRI's work focuses on Goal 16 of the 2030 Agenda for Sustainable Development Agenda, that is centred on promoting peaceful, just and inclusive societies, free from crime and violence. Justice, crime prevention and the rule of law are the basis for fighting poverty and reducing inequalities while enhancing economic growth and stability and protecting the environment. UNICRI supports governments and the international community at large in tackling criminal threats to social peace, development and political stability.

(<http://www.unicri.it/institute/>)

²⁴ DGLC-UIBM, UNICRI: *La contraffazione come attività gestita dalla criminalità organizzata transnazionale. Il caso italiano*. MISE (2012)

of the phenomenon has given rise to a change of trend, attracting the attention of the institutions.

Another important element to consider is the global volume achieved by international trade transactions, which makes it difficult to monitor traffic and identify suspect cargoes. Moreover, the levels of efficiency of customs controls vary from one State to another, leading to the creation of breaches in markets such as the European one.

Moreover, obtaining “branded” counterfeit goods at low prices is becoming increasingly easier with the globalization of trade that connects markets that were once distant, reducing the margin of incidence of transport costs.

1.6. Consequences of the phenomenon

It must be said that counterfeiting is first a disincentive to innovation and, therefore, a possible slowdown in the competitiveness of the production systems involved in the phenomenon.

The damages inflicted on companies operating in the field of legality are in fact related to the lack of sales, to the reduction in revenues, to the loss of image and credibility, to the significant expenses incurred for the protection of industrial property rights.

From another perspective, it must be said that counterfeit products, being manufactured outside the legal and controlled channels, can represent a danger to consumers' health and safety; which is exposed to the use of goods treated with harmful chemicals or produced with materials of lower quality and durability.

Counterfeiting, moreover, constitutes a “multiplier” of illegality because it actually integrates, in a unitary context, a plurality of illicit conduct whose final aim is the release for consumption of irregular products, i.e. undeclared work, illegal

immigration, money laundering, tax evasion, illegal trade and the interference of organized crime²⁵.

1.7. Socio-economic impact of counterfeiting

Trade of counterfeited goods is a significant threat to any economy, as it has become a worldwide and dynamic phenomenon (CENSIS, 2016).

The extent of the phenomenon at the international level has been estimated by various public institutions with different methods and with results that tend to be incomplete. On the other hand, as confirmed by the Guardia di Finanza²⁶, quantifying the counterfeiting and piracy phenomenon is a very difficult and complex operation, if not an impossible one.²⁷ The illegal nature of the activity does not allow to have exact statistics, but it is possible to make estimations, based on inductive surveys. It should also be noted that the criminal phenomenon of counterfeiting concerns not only the product, the design and the trademark, but also the production structure and the distribution network of counterfeit goods²⁸.

According to a 2016 study, presented in collaboration with the OECD (Organisation for Economic Co-operation and Development) and EUIPO (European Union Office

²⁵ Fortunato Lambiase, Cristiano Lenzini, Senato della Repubblica (Ufficio Valutazione Impatto): *Lotta alla contraffazione e tutela del made in Italy*. (14 July 2017)

²⁶ The Guardia di Finanza is a special Police Force that reports directly to the Minister of Economy and Finance, is organized according to a military order and is an integral part of the Armed Forces of the State as well as the Public Force. The tasks of the Guardia di Finanza are established by the law of 23 April 1959, n. 189 and consist in the prevention, research and notification of tax evasion and financial violations, in the vigilance on the respect of the provisions of political-economic interest. (<http://www.gdf.gov.it/chi-siamo/organizzazione/compiti-istituzionali/compiti-istituzionali#null>)

²⁷ The Guardia di Finanza is one of the main forces of the police engaged in the research and detection of forged products. Several documents and statistical data on intervention and confiscation actions are available at www.gdf.it.

²⁸ Mario Centorrino, Ferdinando Ofria: *L'economia della contraffazione: un fallimento di mercato*. Rubbettino (2004)

for Intellectual Property), international trade in counterfeit and pirated goods accounted for approximately 2.5% of world trade in 2012, worth 461 billion euros.

This is a considerable sum if we consider that this corresponds to the GDP of Austria or the GDP of Ireland and the Czech Republic combined. These results show how significant the economic and social consequences for intellectual property rights holders, for governments and for the economy as a whole can be.

Regarding the European Union (EU) situation, these products represented 5% of all imports in 2013, with a value up to 85 billion euros. As a consequence, for a group of advanced-economy countries such as the EU, the impact of counterfeiting is double that of the entire world (OECD/EUIPO, 2016)²⁹.

1.7.1. Counterfeit products in Italy: which are the main counterfeited goods?

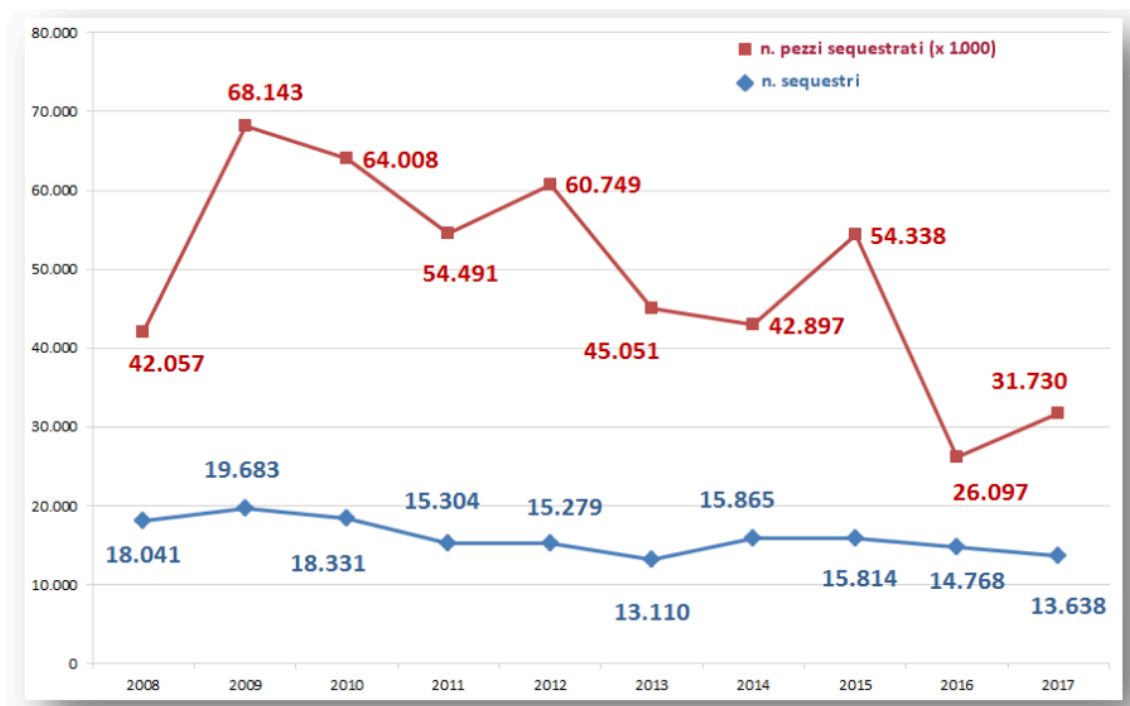
To have a more clear idea of the phenomenon, the data on the activities against counterfeiting in Italy presented in the Iperico Report (Intellectual Property - Elaborated Report of the Investigation on Counterfeiting), produced by the Direzione Generale per la Lotta alla Contraffazione del Ministero dello Sviluppo Economico - Ufficio Italiano Brevetti e Marchi (DGLC-UIBM) in collaboration with the Customs Agency and the Guardia di Finanza, are very helpful.

As you can see from these two figures below, data show that in the period between 2008 and 2017 (excluding the product categories of Tobacco, Medicines Food and Beverages,) were carried out 160,000 confiscations with a total of 490 million counterfeit articles. The *average seizure size* is the ratio of the number of seized pieces to the number of confiscations.

²⁹ Rivista Trimestrale di Scienza dell'Amministrazione, Studi di teoria e ricerca sociale: *Issue n. 4/ 2016*.
(<http://www.rtsa.eu/>)

Contraffazione	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Totale complessivo
Numero sequestri	18.041	19.683	18.331	15.304	15.279	13.110	15.865	15.814	14.768	13.638	159.833
Numero pezzi sequestrati	42.056.701	68.142.885	64.008.000	54.491.186	60.748.530	45.050.920	42.897.070	54.337.542	26.096.632	31.730.129	489.559.594
Dimensione media sequestri	2.331	3.462	3.492	3.561	3.976	3.436	2.704	3.436	1.767	2.327	3.063

Aggregate data 2008-2017: Number of seizures and pieces seized for counterfeiting
(Data from the Customs Agency and the Guardia di Finanza relating to counterfeiting, without Food, Beverages, Tobacco and Medicines. Source: IPERICO Report (DGLC-UIBM))



Seizure and seized articles due to counterfeiting

(Aggregated data 2008 -2017 Customs Agency - Guardia di Finanza. Source: IPERICO Report)

The dataset on customs seizures of IP-infringing goods smuggled into Italy can also be used to quantify infringed product types in that country. It should be noted that for the 2014-2016 period, a wide range of product categories were subject to counterfeiting in Italy. This means that any type of product for which IP adds economic value, and thus creates price differentials, will become a target for counterfeiters and a potential threat to the Italian economy and society.

While a broad range of goods are sensitive to infringement, the intensity of counterfeiting varies significantly across product categories. This is supported by seizures statistics shown in the figure below, which are concentrated in a relatively limited number of product categories³⁰.

The product categories with the highest number of seizures are clothing accessories (55,071) and clothing (33,419), which together constitute more than 55% of the total. Compared to the previous year, in 2017 there was a significant increase compared to 2016 in the following sectors: computer equipment, toys/games and watches/jewellery.

Numero di sequestri per settore merceologico	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Totale complessivo	% su Totale	Variazione % 2017-2016
abbigliamento	3.724	4.094	3.883	3.113	3.053	2.577	3.064	3.344	3.578	2.989	33.419	20,9	-16,5
accessori di abbigliamento	6.914	7.285	6.386	4.967	5.717	4.793	5.422	4.995	4.497	4.095	55.071	34,5	-8,9
altre merci	1.444	1.356	2.076	1.701	1.229	1.183	736	688	843	752	12.008	7,5	-10,8
apparecchiature elettriche	489	726	1.142	1.139	694	934	1.257	1.296	1.212	713	9.602	6,0	-41,2
apparecchiat. informatiche	61	76	135	125	124	91	91	40	41	66	850	0,5	61,0
calzature	2.828	3.402	1.883	1.447	1.291	1.121	1.643	1.802	1.989	2.218	19.624	12,3	11,5
cd, dvd, cassette	84	100	100	61	73	95	142	66	69	39	829	0,5	-43,5
giocattoli e giochi	238	311	377	227	205	124	179	235	235	320	2.451	1,5	36,2
occhiali	1.338	1.127	1.002	870	1.077	1.058	1.741	1.406	906	645	11.170	7,0	-28,8
orologi e gioielli	867	1.142	1.294	1.619	1.736	1.045	1.360	1.758	1.255	1.722	13.798	8,6	37,2
profumi e cosmetici	54	64	53	35	80	89	230	184	143	79	1.011	0,6	-44,8
TOTALE COMPLESSIVO	18.041	19.683	18.331	15.304	15.279	13.110	15.865	15.814	14.768	13.638	159.833	100,0	-7,7

Aggregated data 2008-2017: number of seizures for counterfeiting for each product sector
(Data from the Customs Agency and the Guardia di Finanza relating to counterfeiting, without Food, Beverages, Tobacco and Medicines. Source: IPERICO Report (DGLC-UIBM))

Moreover, a meaningful measure of the likelihood of different types of infringing products to be sold in Italy can be obtained using the GTRIC-p index (General Trade-Related Index of Counterfeiting for product categories). As with GTRIC-e, the seizure intensity of a given product category is compared with the share of this product category in Italian imports of genuine goods. The result is a ranking of products smuggled into Italy by the likelihood that they will be counterfeited.

³⁰ OECD: *Trade in Counterfeit Goods and the Italian Economy: Protecting Italy's intellectual property*. (2018)
(<http://dx.doi.org/10.1787/9789264302426-en>)

GTRIC-p scores, average 2014-2016

Product category (HS codes)	GTRIC-p
Watches (91)	0.998
Toys and games (95)	0.994
Clothing, knitted or crocheted (61)	0.990
Footwear (64)	0.966
Articles of leather; handbags (42)	0.961
Electrical machinery and electronics (85)	0.861
Jewellery (71)	0.831
Tobacco (24)	0.792
Perfumery and cosmetics (33)	0.758
Machinery and mechanical appliances (84)	0.469
Optical; photographic; medical apparatus (90)	0.457
Knitted or crocheted fabrics (60)	0.349
Vehicles (87)	0.268
Plastic and articles thereof (39)	0.265
Beverages (22)	0.203
Pharmaceutical products (30)	0.181

Top product categories in terms of likelihood of being counterfeited

(Notes: A high GTRIC-p score signals a product category that is more likely to be counterfeit – that is to say, it contains high euro values for counterfeit products, or a large share of Italian sales in that product category is counterfeit. Figures in parenthesis are Harmonized System (HS) codes as defined by the United Nations Trade Statistics (UN Trade Statistics, 2017). Values are zero for HS categories non-displayed in this table).

Furthermore, as the figure below shows, the total estimated value of the seized products over the period 2008-2017 is more than 5 billion. The annual values, which are more evident at sector level, show frequent and significant fluctuations, also in relation to the quantities of the seized goods. It is surprising that 51% of all merchandise confiscated in 2015 at customs came from China.

Stima del valore in migliaia di €	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Totale
abbigliamento	103.902	112.053	112.299	54.640	39.682	112.865	97.637	68.430	82.102	111.246	894.855
accessori di abbigliamento	169.548	623.948	103.529	189.700	108.399	117.268	245.553	61.871	67.417	82.000	1.769.233
altre merci	20.642	11.949	52.299	45.370	85.850	132.479	69.554	136.117	10.558	9.991	574.807
apparecchiature elettriche	41.122	31.065	17.681	86.756	161.244	39.107	109.359	27.091	28.494	25.167	567.087
apparecchiature informatiche	2.075	1.898	4.273	6.517	3.468	218	129	72	399	51	19.100
calzature	116.456	89.233	38.928	28.962	17.238	8.320	16.896	5.697	13.477	6.613	341.820
cd, dvd, cassette	855	879	4.018	615	29.038	8.551	3.519	6.932	720	70	55.198
giocattoli e giochi	5.921	45.801	42.237	20.250	43.240	12.139	9.010	6.638	21.443	47.144	253.823
occhiali	46.929	24.589	19.088	133.712	51.555	4.972	2.136	3.449	52.464	1.075	339.969
orologi e gioielli	17.596	13.122	54.512	35.862	31.164	1.977	5.624	2.951	1.535	1.431	165.774
profumi e cosmetici	21.489	40.622	100.887	33.128	8.455	44.986	17.010	13.145	7.580	9.802	297.104
TOTALE	546.534	995.159	549.751	635.511	579.332	482.883	576.427	332.393	286.189	294.589	5.278.769

Aggregated data 2008-2017: estimation of the value of products seized for counterfeiting for each product sector

(Data from the Customs Agency and the Guardia di Finanza relating to counterfeiting, without Food, Beverages, Tobacco and Medicines. Source: IPERICO Report (DGLC-UIBM))

It is now evident that the counterfeiting activities cause damage not only to all those involved in the specific production-distribution-sale chains, but also to the State in terms of tax evasion. For this reason, counterfeiting is to be considered an absolutely negative phenomenon³¹.

In fact, the sale of counterfeit products is implemented through a parallel circuit to the conventional one, with the total evasion of direct and indirect taxes in the production and distribution phases. Consider that already in the early 2000's in the transactions of the illegal market was evading about 8% of the IRPEF³² and 21% of the VAT (Value-Added Tax).

It should be remembered that counterfeiting is considered to be an activity of high profit and relatively low risk. In other words, just a minor part of the profit is attributed to the seller of the counterfeit good; the largest part of the profit goes to the economic

³¹ Alberto Pastore, Ludovica Cesareo: *No al falso! Un'indagine esplorativa sulle strategie anti-contraffazione delle fashion firms*. Mercati e competitività. (2014)

³² IRPEF (Personal Income Tax) was established by the 1973 tax reform. Natural persons and in some cases, companies are subject to the tax, but they pay it through their partners. Those who reside in Italy pay on income generated at home or abroad, while non-residents pay for income produced Italy. The total IRPEF revenue is about 180 billion euros per year (2016), equal to more than a third of the total taxation revenue. (Redazione, 27 March 2019)

agents (mostly members of criminal organizations), who design and manage the manufacture and sale of those products³³.

According to a research conducted by CENSIS in 2016 on behalf of the Ministry of the Economic Development (Directorate-General for Combating Counterfeiting - UIBM), in 2015 the "turnover" of the counterfeit market in Italy was assessed at 6.9 billion euro, a value up by 4.4% compared to 2012.

Hence, the total volume of forgone sales in the Italian wholesale and retail sector due to counterfeit and pirated imports in 2016 was EUR 7.9 billion. This is equivalent to 3.8% of total sales in that Italian wholesale and retail sector the same year³⁴.

Specifically, the sectors most affected by counterfeiting are those of clothing, audio-visual media, the food and electronic equipment.

The main counterfeit products are clothing, accessories and footwear, whose value on the national fake market can be assessed at 2.4 billion euros, or 33.1% of the total. Mostly fake jackets, sportswear, sneakers and, among the accessories, belts, bags and wallets.

Following there are the audio and video materials sector, including video games, with an expenditure value of almost 2 billion euros (27.6% of the total).

Food products, PDO and PGI³⁵, are also counterfeited, for a value of more than 1 billion euros in the last year, equal to 14.5% of the total.

Among the products increasing in the last few years are electrical equipment, mainly components of mobile phones, with a value of 816 million euros (11.3% of the total). Counterfeit watches and jewellery are worth 387 million euros (5.4% of the total) in the fake market. This is followed by the computer equipment sector, consisting mainly of hardware components for computers, tablets, memory cards, USB keys, for a value of 309 million euros (4.3% of the total), with an increase of 8.4% in the last two years.

³³ Anne E. Wilcock, Kathryn A. Boys: *Reduce product counterfeiting: an integrated approach*. Business Horizon (2014)

³⁴ OECD: *Trade in Counterfeit Goods and the Italian Economy: Protecting Italy's intellectual property*. (2018)
(<http://dx.doi.org/10.1787/9789264302426-en>)

³⁵ Since 1993, the EU has had a system in place for Protected Designations of Origin (PDOs) and Protected Geographical Indications (PGIs).

Then there are perfumes and cosmetics (115 million euros) and automotive replacement components, especially candles and batteries (105 million euros).

The number of counterfeit toys is growing strongly: 34 million euros (+20.4% between 2015 and 2017). Finally, medicines (21 million euros), which represent only 0.3% of the counterfeit market.

Over the past year, the Customs Agency and the Guardia di Finanza have conducted 13,638 seizures, resulting in the withdrawal from the market of 31.7 million counterfeit items, mostly from China. However, between 2008 and 2017 confiscated goods declined by more than 24% due to new control evasion strategies. These include splitting illegal shipments into smaller consignments brought to destination by express delivery services, in vans or cars, or following passengers as they landed at airports and harbours.

This is also a result of the more frequent use of the Internet to manage illicit products, to control financial resources or to make advantage of the enormous potential of e-commerce penetration and the ability of websites to quickly disappear and be regenerated.

The distribution of costs by product sector also reveals the complex diversification and fragmentation of the counterfeit market, which concerns all goods and all product category.

On the other hand, the counterfeit industry shows a strong capacity of maintain, or even increase, market volumes using different methods. For example, by modifying the strategies of avoidance of controls, differentiating sales channels, extending the range of quality goods sold or differentiating the types of goods offered.

Compared to the past, the counterfeiting market is, therefore, more widespread, presenting itself as a phenomenon in continuous transformation, such as to become gradually more “liquid” and increasingly difficult to fight in the age of the globalized economy (CENSIS, 2016).

According to a recent estimation provided by CENSIS (2018), in 2017, Italians spent 7.2 billion euros to buy counterfeit products: a value increased by 3.4% by 2015.

Without counterfeiting domestic production would grow by almost 19.4 billion euros (0.6% of the total), with an additional wealth for the country of 7 billion euros, a higher value, to that of the entire metallurgical industry, for example.

1.7.2. The effect of counterfeiting on jobs

Lower sales in the retail and wholesale industries reduce the demand for labour, and consequently lead to job losses. However, a $x\%$ decrease in sales does not necessarily translate into a corresponding decrease of $x\%$ in jobs, such that the extent to which each wholesale and retail industry adjusts employment when sales vary first needs to be calculated. The basic econometric model makes it possible to estimate the industry-specific elasticities. Combining the industry-specific elasticities of employment with the estimated lost sales previously detailed allows then estimating the number and share of lost jobs within wholesale and retail industries.

The table below presents the main results for various branches of the wholesale and retail sector. Total job losses in the Italian retail and wholesale sector due to counterfeiting imports in Italy amounted to more than 31,335 in 2016, equivalent to more than 1.7% of all people employed in the sector.

In absolute terms, the highest job losses due to counterfeiting and piracy were found in the sales of clothing, footwear, accessories and related products: 7437, or 2.5% of all employees in the sectors listed. In relative terms, the wholesalers and retails in the electronic and household appliances sector and in the watches and jewellery sector were the most affected, incurring 9.9% and 8.6% of job losses in 2016, respectively³⁶.

Every euro stolen from the counterfeiting market would generate 2.7 billion euros in the national legal economy³⁷.

³⁶ OECD: *Trade in Counterfeit Goods and the Italian Economy: Protecting Italy's intellectual property*. (2018)
(<http://dx.doi.org/10.1787/9789264302426-en>)

³⁷ This is what emerges from a research carried out by Censis (2018) for the Ministry of Economic Development (Directorate General Combating Counterfeiting - UIBM).

Sector	Number of employees	Share of employees
Food, beverages and tobacco	744	0.1%
Pharmaceutical and medicinal chemical products	2991	5.5%
Perfumery and cosmetics	682	1.6%
Textiles and other intermediate products (e.g. plastics; rubbers; paper; wood)	2019	2.8%
Clothing, footwear, leather and related products	7437	2.5%
Watches and jewellery	1833	8.6%
Electrical household appliances, electronic and telecommunications equipment	6099	9.9%
Machinery, industrial equipment; computers and peripheral equipment; ships and aircrafts	4655	4.2%
Motor vehicles and motorcycles	3760	1.7%
Household cultural and recreation goods; including toys and games and books	1115	1.4%
Total wholesale and retail sector	31335	1.65%

Lost jobs in the Italian retail and wholesale sector due to fake imports in Italy, 2016

(Note: Employees are measured in full time equivalent units according to Eurostat (2018)³⁸ definition.)

1.7.3. Losses in government revenues

Lower sales in the wholesale and retail sector due to counterfeit and pirated imports in Italy mean lower tax revenues for the Italian Government from value-added tax (VAT), corporate income tax (CIT), personal income tax (PIT) and social security contributions.

The table below shows this forgone revenue by type of taxes, which amounted to EUR 4.3 billion in 2016. Within this overall figure, the largest component was forgone (VAT) value added taxes, amounting to 1.7 billion euros.

Tax type	Value in EUR mn	Share of collected taxes
Personal income taxes and social security contributions	1682.7	0.91%
Corporate income taxes	963.6	2.67%
Value added taxes	1686.9	1.64%
Total	4333.2	1.34%

Forgone taxes for the Italian government due fake imports in Italy, 2016

³⁸ Eurostat (2018) defines employees as those persons who work for an employer and who have a contract of employment and receive compensation in the form of wages, salaries, fees, gratuities, piecework pay or remuneration in kind. A worker from an employment agency is considered to be an employee of that temporary employment agency and not of the unit (customer) in which they work.

If we include also the taxes that would be deriving from the production implemented in the other branches of the economy, the total tax revenue would increase to 5.9 billion euros, equal to 2.3% of the State total revenue for the same categories of taxation³⁹.

Finally, one should keep in mind that the degree of tax loss also depends on the efficiency of tax collection schemes. An inefficient fiscal system might allow companies to exploit gaps and mismatches in tax rules to artificially shift profits to low- or no-tax locations where there is little or no economic activity. The OECD Base Erosion and Profit Shifting programme (BEPS)⁴⁰ was designed to tackle this problem. According to its recent findings based on country-by-country reporting, Italy is one of the countries with the most advanced legislative framework to counter this problem⁴¹.

1.7.4. Where do fake products mainly come from?

A review of the data on Italian customs seizures shows that counterfeit products imported into Italy between 2014 and 2016 came mainly from China and Hong Kong, China, representing respectively around 37% and 30% of the total number of seizures made by Italian customs. They were followed by Greece (11%), Romania (7%) and Turkey (4%).

³⁹ <http://www.censis.it/sicurezza-e-cittadinanza/il-%C2%ABfatturato%C2%BB-della-contraffazione-vale-72-miliardi-di-euro-e-cresce-del>

⁴⁰ Base Erosion and Profit Shifting (BEPS) refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity or to erode tax bases through deductible payments such as interest or royalties. Although some of the schemes used are illegal, most are not. This undermines the fairness and integrity of tax systems because businesses that operate across borders can use BEPS to gain a competitive advantage over enterprises that operate at a domestic level. Moreover, when taxpayers see multinational corporations legally avoiding income tax, it undermines voluntary compliance by all taxpayers.

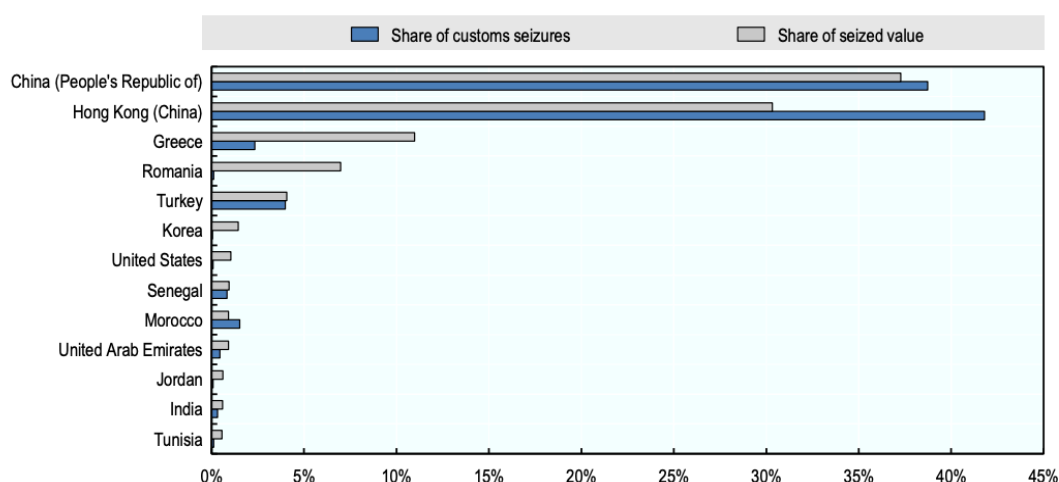
Developing countries' higher reliance on corporate income tax means they suffer from BEPS disproportionately.

Working together within OECD/G20 Inclusive Framework on BEPS, over 130 countries and jurisdictions are collaborating on the implementation of 15 measures to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment.

(<https://www.oecd.org/tax/beps/about/>)

⁴¹ OECD: *Trade in Counterfeit Goods and the Italian Economy: Protecting Italy's intellectual property*. (2018)

(<http://dx.doi.org/10.1787/9789264302426-en>)



Top provenance economies for counterfeit products seized by Italian customs, 2014-16

(Notes: this section uses the General Trade-Related Index of Counterfeiting (GTRIC) methodology developed in OECD/EUIPO (2016)).

In order to compare the likelihood of each provenance country to be a source of counterfeit goods sold in Italy, these data on customs seizures need to be compared with data on each country's Italian imports and sales of genuine products. This was done using the GTRIC-e index (General Trade-Related Index of Counterfeiting for provenance economies), which compares seizure intensities of counterfeits shipped from a given provenance economy with the share of that provenance economy in Italian imports of genuine goods. GTRIC-e assigns a high score to an economy that is a source of a high value of counterfeit products in absolute terms, or when a large share of Italian imports from that economy is counterfeit.

The table below shows the top ten economies most likely to be a provenance of counterfeit products smuggled into Italy for the period 2014-2016. Clearly, some of these provenance economies, led notably by China, and Hong Kong appear to be major sources of infringing items.

Some of these main provenance economies of counterfeit and pirated products shipped to Italy were identified as key transit points in the global trade of fake goods in the recent OECD/EUIPO (2017) report. These include Hong Kong, Singapore, the United Arab Emirates, the Syrian Arab Republic or Jordan. Other small Asian economies

appear as major exporter of fake goods to Italy, but rather as direct producers of these counterfeits. Those include for instance the Bangladesh, Pakistan, Philippines, Thailand, and Malaysia. Some African economies, such as Senegal, Tunisia, and Morocco, and Turkey are also identified as key provenance economies of fake goods in Italy. These could be either because they are important producers of counterfeit and pirated goods, or because they are strategic points of transit.

GTRIC-e values, average 2014-16

Provenance economy	GTRIC-e
Hong Kong (China)	1.000
China (People's Republic of)	1.000
Greece	0.993
United Arab Emirates	0.971
Senegal	0.919
Syrian Arab Republic	0.908
Singapore	0.868
Jordan	0.838
Turkey	0.763
Cyprus*	0.692
Morocco	0.689
Bangladesh	0.628
Romania	0.617
Pakistan	0.599
India	0.537
Philippines	0.491
Thailand	0.478
Korea	0.462
Malaysia	0.388
Tunisia	0.375

Economies most likely to be the provenance of counterfeit and pirated imports in Italy

(Notes: A high GTRIC-e score indicates that an economy is highly prone to be a source of counterfeit products sold in Italy, either in absolute terms or as a share of Italian imports).

Such intra-EU transiting of counterfeit goods poses numerous challenges for Italian customs. According to the EU regulations goods are cleared upon arrival to the EU, even if their final destination is in another member state.

The risk of interception of counterfeits destined for Italy seems to be lower if counterfeiters decide to enter the EU through Member States other than Italy. During several structured interviews, Italian customs confirmed this phenomenon. Random checks of transportation from other EU member countries performed sporadically at

the Mt. Blanc tunnel connecting Italy and France, revealed a large volume of counterfeit goods aiming at Italy, which originated outside the EU⁴².

1.7.5. Who is affected and how?

In the Italian economic context, the damage caused by illegal activities affects not only large signatures, but also SMEs⁴³, which are forced to deal with problems related to fraudulent labelling of “Made in Italy” and the failure to sell products.

It could therefore be interesting to highlight the damages caused to the three parties that are especially hit by the phenomenon of counterfeiting:

- the companies owning registered trademarks
- the governments
- the consumers

Companies owning registered trademarks

These companies are the ones that suffer the most from the stealing of an “intellectual property”, which refers to the value of the brand, built with many years of effort in terms of research, creativity and communication. The objective consequences concern the deterioration of the image of the product and of the reputation of the same firm, causing both direct and indirect damages.⁴⁴

In particular, direct losses include:

⁴² OECD: *Trade in Counterfeit Goods and the Italian Economy: Protecting Italy’s intellectual property*. (2018)

(<http://dx.doi.org/10.1787/9789264302426-en>)

⁴³ SME meaning small and medium enterprises.

⁴⁴ Patrizia Silvestrelli: *Problematiche socio-economiche dei processi produttivi e distributivi di beni contraffatti*. Franco Angeli (2017)
(<http://dx.doi.org/10.3280/edt3-2017oa6264>)

- the value of the missing sales (in terms of lower turnover) which has a different impact on the many economic players of the industry (from the owner of the counterfeit brand to the retailer);
- the financial damages resulting from the inability to recover the investments made for the expected volumes and not realized because of the counterfeiting; those also determine a lower tendency towards creativity and new investments in research and development;
- the loss of market share of the regular company, which is subject to unfair competition from the entity which sells counterfeit goods and exploits the reputation of an item, without supporting any advertising investment;
- the loss of prestige and image resulting from the “banalization” of the counterfeit brand, which is however difficult to quantify economically (A.A.V.V., 1998).

Indirect damage, on the other hand, relates to the costs incurred by enterprises which have been harmed in order to protect their products, both competitively and legally.

Some examples of such costs include:

- investments in communication, made to persuade the consumer not to buy fake articles, providing information on the particular features of the original product, which cannot be found in the counterfeit good;
- the fees to be paid for trademark filing and protection even in countries of limited commercial importance;
- the costs of market monitoring, in order to identify counterfeiters and consequently adopt technological security solutions to safeguard their products;
- legal costs of any possible legal disputes.

Counterfeiting therefore alters the transparent structure of the market, which is affected by unfair competition based on cheaper design, production and distribution costs.

As is widely known, innovation is an unavoidable element for firms to achieve long-term levels of development, promoting the economic benefits for the whole of society. It is therefore reasonable to say that a fair competitive process can be realized when every company honestly tries to improve its products - if it has the objective of gaining (or at least preserving) market shares - in order to satisfy a collective need, in accordance with those inalienable principles that should guide every human action, even in the economic environment.

This leads us to reflect on the impact of counterfeiting on workers in counterfeit factories. It is a social damage, which is generated within the same illegal production units, such as the manipulation of subjects socially “weak” (illegal immigrants, unemployed and minors), who are recovered through a real “racket” of undeclared work, often managed by the organized crime, with tax fraud and without any insurance cover. It is quite obvious that this causes not only a loss of regular jobs, but also damage to local communities.

Governments

For governments, the main effects of counterfeit goods smuggling are forgone tax revenues. First of all, the lower sales volume and profits of wholesalers and retailers directly reduce corporate income taxes. Secondly, sales on secondary markets made by wholesalers and retailers are not likely to be registered, which results in reduced sales taxes and value-added taxes. Finally, job losses brought about by counterfeiting reduce payroll taxes, notably social security contributions and personal income taxes.

The presence of counterfeit and pirated products can have profound long-term implications. For instance, consumers who purchase fake items in the belief they are genuine will be likely to blame the manufacturer of the genuine product if the fake does not fulfil expectations, thus damaging goodwill. If consumers never discover they have been deceived, they may be reluctant to buy another product from that manufacturer, and may communicate their dissatisfaction to other potential buyers.

Also, consumers who purchase the genuine article may be put off by the availability of a counterfeit version. Given that these consumers are aware of potential deception on the primary market, they could adjust their expectations about future consumption.

In addition, lower revenues and profits resulting from counterfeiting and piracy lead in turn to lower investments by rights holders, including investments in research and development (R&D). This could translate into less innovation, slowing technical progress and lowering the rate of economic growth in the longer term⁴⁵.

Consumers

Counterfeiting also hurts consumers, in terms of unsafe and non-reliable products (A.A.V.V., 1997). The purchase of a false product is not supported by any guarantee, while the consumption of these products puts the user in a position of risk for his health.

In fact, the purchase of a counterfeit product can have direct and indirect negative effects on health and safety of the customer, as well as negatively affecting the environment.

However, these aspects are evidently not focused, and there are no recent surveys that are up-to-date, accurate and conducted with rigorous techniques on the impacts of the purchase and use of counterfeit products on human and environmental health and safety⁴⁶.

This has been the case in areas such as pharmaceuticals, where patients have died as a direct consequence of counterfeit medicines; the automotive sector, where the integration of non-original car parts has led to serious accidents; and the food safety authority where there occurred cases of intoxication.

The harmful effects of the toxicity of ingredients used in the production of counterfeit products are more easily perceived for food products (as they are ingested) than for

⁴⁵ OECD: *Trade in Counterfeit Goods and the Italian Economy: Protecting Italy's intellectual property*. (2018)
(<http://dx.doi.org/10.1787/9789264302426-en>)

⁴⁶ Europartners, Università Telematica Internazionale UniNettuno: *Percezione sociale del rischio del consumo di prodotti contraffatti per la salute. La salute non ha prezzo*.

other product categories, such as clothing (where the product comes into direct contact with the skin of people).

Nevertheless, the clothing and footwear sectors are exposed to the health risk which directly affects the consumer and his family. The health risk of the citizen is caused by the use of chemicals substances noxious if in contact with the skin, and often lead to irritations and intoxications and in extreme cases also to burns. These materials are not naturally present and are able to causes dermatitis and allergies to the environment and toxic to the aquatic organisms⁴⁷.

In fact, counterfeiting is a fraud against consumers, in particular because it weakens the typical function of the mark, which is to guarantee the productive and commercial origin of the product (distinctive function)⁴⁸.

In addition, counterfeit goods are often produced in complete defiance of safety rules intended to protect consumers, as they do not satisfy minimum quality requirements and are not submitted to controls by the competent authorities.

If counterfeit (or pirated) products are acquired away from official commercial channels, it is no longer possible for the final consumer to have access to pre- and post-sales services, to benefit from a guarantee, or to receive an effective protection in the event of damage caused by the goods purchased.

It is essential, therefore, that even more accurate legislation be drawn up to protect consumers, so that, first and foremost, they can be better aware of the risks and negative repercussions of counterfeiting at both economic and social level.

This phenomenon in fact constitutes a cost and a damage for the entire society. An example of this is the reinvestment of the cash flows generated by the falsification in other criminal activities (smuggling, usury, trafficking of narcotic substances, etc.), thus realizing an unavoidable economic “vicious circle” that has consequences - against every basic ethical principle - in the civil life of the population.

The effects of the global trade in counterfeit goods on the Italian economy can be assessed from two perspectives as the figure below shows:

⁴⁷ Ministero dello Sviluppo Economico, Direzione Generale per la lotta alla contraffazione, Ufficio Italiano Brevetti e Marchi: *Progetto “Io sono originale”*. (2015)

⁴⁸ David A. Aaker: *Strategic Market Management*. Wiley (2001)

- the effects of counterfeit products smuggled into Italy on consumers; industries, including manufacturing, wholesale and retail; and on the Italian government;
- the effects of IPR infringements on Italian right holders, and consequently on the manufacturing industry and government.

	Effects caused by counterfeit and pirated imports in Italy	Effects caused by global trade in goods infringing Italian residents' IPR
Industries	<div>Retail and wholesale: Lower sales and profits (<i>secondary market</i>)</div> <div>Retail and wholesale: job losses</div>	<div>Right owners: Lower sales and profits (<i>primary and secondary markets</i>)</div> <div>Right owners: job losses</div> <div>Right owners: brand erosion, lower innovation</div>
Government	<div>Lower VAT, SSC, PIT, and corporate taxes from wholesale and retail industries (<i>secondary market</i>)</div> <div>A wide range of socio-economic costs: higher unemployment, lower growth rate in the long term, negative impact on innovation; development of criminal networks, corruption, environmental damage etc.</div>	<div>Lower SSC, PIT, and corporate taxes from right holding industries (<i>primary and secondary markets</i>)</div>
Consumers	<div>Lower consumer surplus (<i>primary market</i>)</div> <div>Health and safety risks</div>	

How counterfeit trade affects Italy – its consumers, industries and government

(Notes: Grey indicates areas for which quantitative analysis of impact is possible (with varying degrees of robustness in the final results). White indicates areas for which quantitative analysis of impact is not currently possible.

VAT refers to value-added taxes, SSC to social security contributions, PIT to personal income taxes.)

It is important to keep in mind some elements while analysing these impacts.

Firstly, the notion of primary and secondary markets for counterfeit and pirated goods. That is to say, it distinguishes between fake products that deceive consumers (primary markets) and those that are openly sold as fakes to consumers (secondary markets – OECD/EUIPO, 2016). The markets for deceptive and non-deceptive products have

significantly different characteristics, and these differences have important implications in the overall assessment.

Secondly, whereas in primary markets consumers pay the full (or approximately) retail price for a fake product thinking it is genuine, consumers knowingly purchasing IPR infringing products in secondary markets are likely to pay a lower price, and would not necessarily have substituted the fakes for the genuine goods given the choice. Obviously, these differences in price and substitution rates have different implications for estimating lost sales and lost taxes, and for the valuation of consumers' detriment (the price premium unjustly paid by consumers in the belief they are buying a genuine product)⁴⁹.

1.8. The “fake” industry organization

The domestic counterfeiting market is also driven by real “poles of production” on the territory. They are organized to manage each step of the wider process leading to the introduction of counterfeit goods for consumption; from import of the raw material to its assembly, from storage to sale, sometimes succeeding in exploiting the expertise of some national production districts.

As we said before, the organizational structure is not always located entirely in the country.

In certain cases, we observe the relocation abroad of some steps in the overall production process, depending on business advantage or opportunity the countries concerned, also from a regulatory point of view.

In these terms, for example, raw materials or also finished products are found in countries such as the countries of North Africa, China and Turkey.

⁴⁹ OECD: *Trade in Counterfeit Goods and the Italian Economy: Protecting Italy's intellectual property*. (2018)
(<http://dx.doi.org/10.1787/9789264302426-en>)

The assembling and final packaging phases of the products are often handled in clandestine factories in our country, while retail distribution is provided by a tight network of intermediaries and sellers, mostly of extra-European origin.

The capital raised from the completed business is sometimes transferred to banks located in offshore⁵⁰ countries, where banking privilege is more stringent, making use of also of monetary transfer bureaus⁵¹.

There are some relevant examples to show what described above such as:

- the production structures identified in the province of Naples, in the two distinct operations, “Gran Bazar” and “Ali Babà” (Guardia di Finanza Napoli, 2013/2014).

In “Gran Bazar” operation, in a 500 square metre industrial hangar in San Giuseppe Vesuviano, the headquarters of the clandestine factory, there were found 7 printing machines with removable metal rollers on which they were imprinted well-known counterfeit fashion brands, 5 linear kilometres of already printed leather with a total weight of 7 tonnes and a further 2,000 metres of fabric still to be marked.

In the operation “Ali Babà”, instead, it has been identified 24 industrial machinery, 16 workbenches and as many storage rooms, in addition to 400,000 pieces already packaged or semi-finished and 10,500 square meters of fabric ready for marking, the equivalent of a regulated football pitch.

- In 2015, the “Volturno” operation in Florence led to the dismantling of an organization dedicated to the production and distribution of counterfeit clothing accessories, operating in Tuscany and with ramifications throughout the country. 10 Chinese citizens, 2 Senegalese subjects and one Italian were

⁵⁰ One of the most frequent objectives related to the creation of an offshore company is the reduction of taxation. But it is also possible to obtain other advantages through a properly configured company: protection of assets, simplified bureaucracy, optimization of costs, and confidentiality. In practice, offshore companies are sometimes used to conduct fairly hazardous speculations, prohibited transactions or conceal budget losses. It is therefore a widespread phenomenon to set up offshore companies within the corporate architecture of multinational groups. (Gian Franco Campobasso: *Diritto Commerciale. Vol.2: Diritto delle Società*. UTET Giuridica (2008))

⁵¹ Fortunato Lambiase, Cristiano Lenzini, Senato della Repubblica (Ufficio Valutazione Impatto): *Lotta alla contraffazione e tutela del made in Italy*. (14 July 2017)

members of this organization, all subject to pre-trial detention. As a result, have been seized approximately 30,000 counterfeit clothing accessories, a building used as a leather goods workshop, 22 machines for the production of manufactured goods and 7 punches, as well as an apartment, 7 cars and bank assets for a total value of more than 290,000 euro⁵².

- In the “Omnia Venalia” operation (Guardia di Finanza Vicenza, January 2013) concluded with the denunciation of 69 people and the seizure of 323,000 counterfeit clothing and accessories; it was found that the organizers of the trade made use of some companies located between the provinces of Brescia and Bergamo, where there is a renowned industrial district specializing in metalworking, for the production of buttons and metal plates to be affixed to clothing and counterfeit leather goods⁵³.
- In the operation called “Ora Illegale” (25-07-2012), more than 1,000,000 counterfeit watches and components have been seized by the company during an operation carried out in Via Pistoiese, Prato, which has made it possible to also seize 2 garages, 1 car, 26 matrices, 5 professional machines, and report 6 subjects to the A.G.⁵⁴ The “machine” of the false discovery by the financiers was in the vanguard, so much so that even the latest generation of anti-counterfeiting holograms had been falsified, using precision equipment. In order to reduce to a minimum, the risks of interception of illegal loading, watches and components similar in design to those of important international brands were imported from China and regularly cleared of customs duties by Chinese subjects⁵⁵.
- counterfeit watches have been seized during the week of August, by the “Fiamme Gialle”⁵⁶ of the Company of Matera. During a series of interventions

⁵² Camera dei Deputati, Commissione Parlamentare di inchiesta sui fenomeni della contraffazione, della pirateria in campo commerciale e del commercio abusivo, Doc. XXII-bis N. 13: *Relazione sui rapporti tra criminalità organizzata e contraffazione*. (2017)

⁵³ Ministero dello Sviluppo Economico, Bollettino n.4, 2016 (<http://www.senato.it/leg/17/BGT/Testi/Dossier/01068798.akn>)

⁵⁴ A.G. meaning “Autorità Giudiziaria” (Judicial Authority)

⁵⁵ Guardia di Finanza, Comando Provinciale Prato: *Commissione d’inchiesta sui fenomeni della contraffazione della pirateria in campo commerciale*. (2014)

⁵⁶ “Fiamme Gialle” (Yellow Flames) is the name with which the athletes of the Guardia di Finanza Sports Groups are known. In 1994, the General Command established the Sports Centre Command,

to protect the market of goods and services, prepared in conjunction with the major tourist flows and events included among the initiatives related to the appointment of Matera as European Capital of Culture 2019, the financiers have identified, in the central Piazza Vittorio Veneto in Matera, a counter - regularly held - which offered for sale, among various used items and trinkets, including watches of well-known luxury brands, including Rolex, Omega, Pryngeps, Armani and Liu Jo, results apparently well counterfeited. The 16 watches, the sale of which would have yielded about 2,000 euros, were immediately seized and the walker who held them, a 53-year-old Italian, was reported on the loose to the A.G. for the crimes of trade in products with false signs and receiving stolen goods⁵⁷.

1.9. Registered trademark and registration requirements

1.9.1. What is a trademark: definition and categories

The definition of what a trademark is contained in Article 7 of the Industrial Property Code (Law Decree 10 February 2005, n. 30):

“Any sign capable of being represented graphically, in particular words, including names of persons, designs, letters, figures, sounds, the shape of the product or of its packaging, colour combinations or shades, may be registered as a trade mark provided that it is capable of distinguishing the goods or services of an undertaking from those of other companies”.

with the aim of adapting the regulatory, administrative and logistical structure of yellow and green sport to the organisational standard that the athletic results achieved by the Yellow Flames required. Gruppi Sportivi Fiamme Gialle.

(<http://www.fiammegialle.org/organizzazione/>)

⁵⁷Guardia di Finanza, Sistema Informativo Anticontraffazione (SIAC) 2019

<https://siac.gdf.gov.it/notizie/Pagine/Sequestrati-orologi-di-brand-di-lusso-contraffatti.aspx>

The trademark is a sign to distinguish the products and services of a company from those of other companies on the market, allowing the consumer to associate their quality standards. The trademark therefore allows the identification of the origin of the product/service by associating it with the entrepreneur. Brands influence consumers' choices on a daily basis. A strong brand creates an identity, reinforces trust, distinguishes the owner from his competitors and simplifies communication between seller and buyer⁵⁸.

The brand represents the name with which a company presents itself to its target market and that often in the collective consciousness acquires its own identity different from that of the corporate.

Consider, for example, brands such as Mulino Bianco or Dixan that are not always reported immediately and directly to their respective manufacturers, i.e. Barilla and Unilever, or brands that even replace the name of the company, as in the case of brands such as Moulinex and Chicco, certainly more well-known than those of their respective firms of reference (SEB and Artsana).

For this reason, a brand must be sufficiently distinctive and individualizing to allow a product or a series of products, not necessarily of the same type, to consolidate in the memory of its customers and convey the message to be transmitted and with it all the values that the company wants its customers to associate with it⁵⁹.

According to the elements that constitute the trademark can be distinguished in:

- word trademark, which consists only of words;
- figurative trademark, which consists of a figure or a reproduction of real or fictional objects. For the purposes of filing, a mixed mark (consisting of words and figurative elements) is also considered figurative;
- three-dimensional trademark which consists of a three-dimensional shape and which may include containers, packaging, the product itself or its appearance;

⁵⁸ <http://www.gr.camcom.gov.it/>

⁵⁹ <https://www.studiomarchiebrevetti.it/cosa-e-un-marchio/>

- sound trademark which consists exclusively of a sound or a combination of sounds;
- movement trademark, characterised by a change of position of the elements of the mark;
- multimedia trademark consists of the combination of image and sound;
- repeated-motif trademark,
- position trademark,
- holographic trademark, consisting of elements with holographic characteristics⁶⁰.

1.9.2. Trademark requirements

To be valid, a trademark must have three particular requirements: novelty, originality and lawfulness.

- Novelty: the trademark is new when there are no identical or similar trademarks already registered, or widely used, for the same products or services that the trademark will identify. Therefore, before choosing to adopt a trademark it is important to verify that the sign has not already been registered at least for products or services similar to those that you want to offer. It is also not always original the mark that is equal to a well-known mark even if you decide to use it for goods or services other than those represented by the mark because in this case the well-known mark enjoys what is called an “ultra-merchandise” protection. The classic example of a well-known brand is the Coca-Cola brand, known worldwide even by those who do not consume the famous drink⁶¹.

⁶⁰ Ministero dello Sviluppo Economico, Governo italiano
(<https://uibm.mise.gov.it/index.php/it/marchi>)

⁶¹ <https://www.ufficiobrevetti.it/il-marchio/>

- Originality: is the ability to distinguish one product or service from the others. The mark must not be particularly trivial and should not include obvious references to the nature or characteristics of the goods and their intended use⁶².
- Lawfulness: the trademark must not be in conflict with mandatory rules, morality and/or public order. In particular, it must not mislead the consumer as to the origin, composition, properties or use of the product⁶³.

These above-mentioned requirements are specifically described in the Articles 12,13 and 14 of the Industrial Property Code⁶⁴.

⁶² <http://www.gr.camcom.gov.it/>

⁶³ <https://www.dirittoprivatoinrete.it/impresa/marchio.htm>

⁶⁴ Art. 12. Novelty

1. Signs which at the date of filing of the application are not new within the meaning of Article 7: (b) are identical with or similar to a sign already known as a trade mark or sign of goods or services manufactured, put on the market or supplied by others for identical or similar goods or services, if by reason of the identity or similarity of the signs and the identity or similarity of the goods or services there is a likelihood of confusion on the part of the public, which may also consist of a likelihood of association between the two signs. A trade mark is also deemed to be well known if, pursuant to Article 6a of the Paris Union Convention on Industrial Property, as revised at Stockholm on 14 July 1967 and ratified by Law No 424 of 28 April 1976, it is well known to the relevant public, including by virtue of the reputation acquired in the State through the promotion of the trade mark. Previous use of the sign, when it does not give rise to a reputation for it, or amounts which are purely local, does not detract from the novelty, but the third party who is the prior user has the right to continue using the mark, including for advertising purposes, within the limits of local distribution, notwithstanding registration of the mark itself. The previous use of the sign by the applicant or his predecessor is not an obstacle to registration; c) are identical or similar to a sign already known as a company, name or business name, sign and business domain name, adopted by others, if because of the identity or similarity between the signs and the identity or affinity between the business activity of the latter and the goods or services for which the mark is registered may create a risk of confusion for the public, which may also consist in a risk of association between the two signs. The previous use of the sign, when it does not matter notoriety of it or amounts notoriety purely local, does not remove the novelty.

Art. 13. Distinctive capacity

1. Signs which are devoid of any distinctive character and, in particular, those consisting exclusively of generic names of goods or services or descriptive indications referring thereto, such as signs which, in trade, may serve to designate the kind, quality, quantity, intended purpose, value, geographical origin or the time of manufacture of the goods or of provision of the service or other characteristics of the goods or services, may not be registered as a trade mark.

Art. 14. Lawfulness

1. The following may not be registered as a trademark: a) signs contrary to law, public order or morality; b) signs capable of deceiving the public, in particular on the geographical origin, nature or quality of goods or services; c) signs the use of which would constitute a violation of another's copyright, industrial property or other exclusive right of third parties.

1.9.3. The exclusive rights of the trademark owner

The trademark owner acquires the absolute right to make an exclusive use of the trademark.

In particular, as clearly provided in Article 20 of the Intellectual Property Code:

“The rights of the owner of the registered trademark consist in the right to make exclusive use of the brand. The owner has the right to prohibit third parties, without his consent, from using in the activity economic:

(a) a sign which is identical to the trademark in relation to goods or services which are identical to those for which it is registered;

(b) a sign which is identical with, or similar to, the registered trade mark, in relation to the same or similar goods or services, if because of the identity or similarity of the signs and of the identity or similarity of the goods or services, may there is a risk of confusion for the public, which may also consist of a risk of association between the two signs;

(c) a sign which is identical with or similar to the registered trade mark for goods or services even if not similar, if the registered trademark enjoys in the state of repute and whether the use of the sign without just cause allows to take unfair advantage of the distinctive character or the repute of the trade mark, or bears prejudice to them”.

Therefore, the identical nature of trademark and goods/services is never allowed, whereas if there is a similarity, it must be verified whether there is a likelihood of confusion.

If the trademark is very popular, its use for different goods or services is never allowed when the user takes an undue advantage of the reputation of the previous trademark or causes the famous trademark undue prejudice⁶⁵.

In addition, trademark registration provides effective protection against copying, imitation, usurpation, and counterfeiting of your trademark. With the registered

⁶⁵ <https://www.ufficiobrevetti.it/il-marchio/>

trademark it is possible to send warnings and take legal actions against counterfeiters who use their own trademark without the relevant authorization⁶⁶.

1.9.4. How to register a trademark: renewal, duration and revocation

The exclusive rights conferred by law on the trademark owner are obtained through the registration of the trademark.

The rights start from the date of filing of the first application for trademark registration and last 10 years, after which it is possible to renew the trademark by submitting a new application for renewal for a further 10 years.

As stated in Article 19 of the Intellectual Property Code:

“1. Any person using or proposing to use a trademark may obtain a trademark registration, in the manufacture of or trade in products or in the provision of services by their own undertaking or by undertakings over which it has control or which make use of it with its consent.

2. A person who has made a bad application for a trademark may not obtain registration for that trademark. faith.

3. State, regional, provincial and municipal administrations may also obtain trademark registrations”.

Therefore, a registered trademark can be obtained even before using it on condition that it is intended to be used within a reasonable time that Italian law identifies within five years from the date of registration⁶⁷.

Indeed, as required by Art. 24 of the Intellectual Property Code, a trademark must be used within five years of registration “under penalty of revocation”.

⁶⁶ <http://www.gr.camcom.gov.it/>

⁶⁷ <https://www.ufficiobrevetti.it/il-marchio/>

"The trade mark must, under penalty of revocation, be put to genuine use by the proprietor or with his consent, in respect of the goods or services for which it is registered, within five years of registration, and such use must not be suspended for an uninterrupted period of five years, unless the non-use is justified by a legitimate reason".

Therefore, those who do not use the trademark for five consecutive years after registration risk losing it, especially if someone else in turn registers the same trademark.

1.9.5. National and international registration

Another fundamental element is the geographical area where a trademark can be valid.

A trademark is protected only in the state in which it is registered. An Italian trademark therefore has effect only in Italy with the consequence that any other person could register the same trademark outside of Italy and have exclusive rights over those territories.

While, in order to obtain trademark protection in one or more foreign countries you will need to file the trademark individually in the countries of interest or choose the European Mark that allows you to protect the trademark in all the countries of the European Union or the International Mark with which you can protect the trademark in a considerable number of countries worldwide⁶⁸.

The procedure to be followed for the registration of a national trademark requires the application to be deposited with to the Italian Patent and Trademark Office in Rome or with the Chamber of Commerce. In this case, the protection is available only for the Italian territory.

⁶⁸ <https://www.ufficiobrevetti.it/il-marchio/>

However, for the filing of a Community trademark, with one application drawn up on special forms prepared by the Office for Harmonization in the Internal Market, the trademark is protected in all the countries of the European Union⁶⁹.

Finally, for the filing of an international trademark, its application can be submitted, only after the filing of the national trademark, to the WIPO⁷⁰ (World Industrial Property Organization) in Geneva identifying the countries party to the Madrid Agreement⁷¹ in which the applicant is interested in protecting the trademark.

⁶⁹ <https://euipo.europa.eu/ohimportal/it>

⁷⁰ WIPO is the global forum for intellectual property (IP) services, policy, information and cooperation. It is a self-funding agency of the United Nations, with 192 member states. Its mission is to lead the development of a balanced and effective international IP system that enables innovation and creativity for the benefit of all. The mandate, governing bodies and procedures are set out in the WIPO Convention, which established WIPO in 1967.

(<https://www.wipo.int/about-wipo/en/>)

⁷¹ Through the Madrid System, brand owners may file a single international application to seek trademark protection in multiple member countries. This streamlines the process of obtaining and managing trademark registrations, which saves time and money. In 1988, the Madrid Union counted only 25 members. Today, that number has more than quadrupled with 106 members, covering 122 countries, and many more in the pipeline. The Madrid System welcomed three new members in 2019: Canada, Brazil and Malaysia, making the Madrid System a truly global solution for brand owners seeking trademark protection abroad. This year, WIPO's Madrid System has recorded its 1.5 millionth international registration, marking an important milestone for the International Trademark System. *"The Madrid System helps enterprises establish a market presence in a cost-effective manner - this is of critical importance in an increasingly global marketplace,"* said WIPO Director General Francis Gurry, *"This important milestone is a testament to the growing importance of the Madrid System and brands in international commerce."*

WIPO: *WIPO's International Trademark System Marks 1.5 Millionth registration.* (26 November 2019)

(https://www.wipo.int/portal/en/news/2019/article_0058.html)

CHAPTER 2

DIGITAL SALES AND ONLINE COUNTERFEITING

2.1. Origins of e-commerce

2.1.1. Fundamentals of the network and digital exchanges

Analysing the history of e-commerce from the antipodes, we begin from the first idea of remote commerce. In 1969, a United States military project called ARPAnet (Advanced Research Projects Agency NETwork) was born and developed by DARPA (Defense Advanced Research Projects Agency, in charge of developing new technologies for military use): this is the early stage of the Internet which remotely interconnected four major American universities.

In 1971, the Terminal Interface Processor (TIP) was developed to provide a connection between a computer and a terminal⁷².

In the late 1960s, the Electronic Data Interchange (EDI) was developed, a system for exchanging data that was first used by transport companies and then adopted by other industries in which large volumes were in circulation. Electronic Data Interchange replaced the exchange of documents by letter and fax with a fast-digital transfer from one computer to another and thus allowed companies to generate and share business documents in an automated manner⁷³.

Furthermore, the transfer of electronic money through the Electronic Fund Transfer (EFT) begins, is a transaction that takes place over a computerized network, either among accounts at the same bank or to different accounts at separate financial institutions⁷⁴.

⁷² Simone Catania: *La storia del futuro: la nascita dell'e-commerce (1979-1995)*. (4 September 2017) (<https://www.news.srl/la-nascita-delle-commerce-1979-1995/>)

⁷³ <https://www.axelero.it/storia-dell-e-commerce/>

⁷⁴ <https://investinganswers.com/dictionary/e/electronic-funds-transfer-eft> (3 October 2019)

In 1979, Michael Aldrich connected a domestic television by telephone line to a real-time transaction processing computer and invented what he called teleshopping, meaning shopping at a distance.

Today it is called online shopping, e-commerce and e-business and it is a fast growing world-wide multi-billion-dollar business⁷⁵.

Moreover, the development of TCP/IP (Transmission Control Protocol/Internet Protocol) already began in the 1970s and traces back to the work of DARPA (Defense Advanced Research Projects Agency).

They refer to a family of network protocols which are the basis for communication and data exchange over the internet as well as on private IP networks and has now established itself as a universal and worldwide popular protocol. It is platform-independent and available for devices with all operating systems imaginable. The reasons for the success of the protocol family are the victory of the Internet as well as its flexibility and versatility⁷⁶.

Internet still does not exist, it was then in 1989 - while working at CERN⁷⁷ in Geneva - that Tim Berners-Lee, a British scientist, invented the World Wide Web (WWW)⁷⁸. He also developed the first hypertext server software known as “httpd” which ran in the background and was the server to which the browser would connect to serve up, what we know today, as “web pages”⁷⁹.

The web was originally conceived and developed to meet the demand for automated information-sharing between scientists in universities and institutes around the world.

⁷⁵ Michael Aldrich: *Inventor's Story*. (November 2011)
(http://www.aldricharchive.com/inventors_story.html)

⁷⁶ <https://www.nfon.com/en/service/knowledge-base/knowledge-base-detail/tcp-ip>

⁷⁷ At an intergovernmental meeting of UNESCO in Paris in December 1951, the first resolution concerning the establishment of a European Council for Nuclear Research (in French *Conseil Européen pour la Recherche Nucléaire*) was adopted. Two months later, an agreement was signed establishing the provisional Council – the acronym CERN was born.
(<https://home.cern/about>)

⁷⁸ CERN, Accelerating Science: *The birth of the Web*.
(<https://home.cern/science/computing/birth-web>)

⁷⁹ CERN: *History- WorldWideWeb NeXT Application, Context for how the WorldWideWeb application was developed*.
(<https://worldwideweb.cern.ch/history/>)

Moreover, as we can see from this picture, the first website at CERN – and in the world – was dedicated to the World Wide Web project itself and was hosted on Berners-Lee's NeXT computer.



Screenshot of the recreated page of the first website (Image: CERN)

Then, on 30 April 1993, CERN put the World Wide Web (WWW) software in the public domain. After some time, CERN made a release available with an open licence, a solid way to maximise its dissemination: all these actions allowed the web to flourish⁸⁰.

This program – WorldWideWeb (WWW) — is the antecedent of most of what we consider or know of as “the web” today⁸¹.

Since the 1990s the use of the Internet began to spread to the broader public. In 1994, Netscape developed a secure browsing browser that includes the SSL (Secure Socket

⁸⁰ CERN, Accelerating Science: *The birth of the Web*.
(<https://home.cern/science/computing/birth-web>)

⁸¹ <https://worldwideweb.cern.ch/>

Layer) security protocol that has been a fundamental element in the development of B2C e-commerce⁸².

The Secure Socket Layer standard encrypts the messages of an incoming and outgoing online transaction so that personal information such as name, address, credit card number, etc. can be safe as they pass through the web. In fact, Secure Socket Layer encryption is an essential computer security protocol still widely used today. And it is no coincidence that in June of the same year one of the giants that have made e-commerce history was born: Amazon⁸³.

Between 1994 and 1995, external services from third party companies appeared to process purchases with credit cards online. Among the best known and spread were First Virtual and CyberCash⁸⁴.

In 1995, VeriSign⁸⁵ appeared offering certification services to verify the identity of online stores. The birth of a reliable browser and secure transactions were the driving force that led to the appearance of real online shops.

At the same time, more advanced security protocols and, above all, a more intuitive and immediate browsing experience led to the internet boom with an exponential increase in what is called the “new economy”.

Between 1997 and 2000, the number of users on the net grows, but also the number of companies active in Internet-related areas (programming, technological innovation, etc.), the so-called “dotcoms”, with an increase in the price of their shares regardless of any market logic.

In March 2000, a speculative bubble burst, triggering a chain reaction that cancels out many of the companies considered emerging. However, e-commerce does not disappear, because in the meantime the Internet has revolutionized the very idea of traditional commerce, breaking down barriers and allowing consumers to be faced with a choice that is no longer limited to a geographical location.

⁸² <https://www.axelero.it/storia-dell-e-commerce/>

⁸³ <https://www.axelero.it/storia-dell-e-commerce/>

⁸⁴ Simone Catania: *La storia del futuro: la nascita dell'e-commerce (1979-1995)*. (4 September 2017) (<https://www.news.srl/la-nascita-delle-commerce-1979-1995/>)

⁸⁵ VeriSign is a global provider of domain name registry services and internet infrastructure, enables internet navigation for many of the world's most recognized domain names.

At the same time, even physical stores realize that e-commerce is not just a rival, but an opportunity with clear advantages that, integrated into their business, can improve sales figures. Since then, business growth has continued, although not always as rapid in different countries⁸⁶.

Among the world giants of the sector, alongside the historical Amazon and eBay there is also the Chinese Alibaba, while for Italy the Ibs.it case⁸⁷ certainly deserves a mention.

The boom of the 2000s takes place against the backdrop of the gradual spread of high-speed ADSL in the homes of millions of people in the USA and Europe.

Several companies offer their products and services on the web. The term e-commerce has spread like the activity of buying goods and services on the Internet through secure electronic payments.

Given the growth of the online commerce sector and the need for secure communication and transactions, the Payment Card Industry Security Standards Council (PCI) was founded in 2004 with the aim of creating security standards.

The increasing popularity of tablets and smartphones has given a new leap forward to the evolution of e-commerce with more and more users connected and new ways to carry out business transactions also from mobile.

In recent years the exponential use of social networks has opened new doors for online retailers and created new communication tools between customers and companies.

A new shopping experience with quality and more and more realistic contents exploiting the technologies of virtual reality is the future⁸⁸.

Online shopping destroyed the old conjunctions. Commerce could take place 24/7. Neither buyer nor seller needed to be in attendance together to complete a transaction. A buyer connected to a seller's computer could not be talking to a competitor at the same time. A seller could change terms, conditions and offers

⁸⁶ <https://www.axelero.it/storia-dell-e-commerce/>

⁸⁷ Ibs.it case, an online bookshop founded in 1998, has in fact kicked off the online trade in Italy, registering the first purchase by credit card. It has added to online sales - and well before Amazon - not only a network of physical bookstores, but also a series of partnerships and acquisitions that have allowed it to reach a turnover of 100 million euros in 2013.

(<https://www.axelero.it/storia-dell-e-commerce/>)

⁸⁸ Simone Catania: *La storia del futuro: la nascita dell'e-commerce (1979-1995)*. (4 September 2017) (<https://www.news.srl/la-storia-del-futuro-la-nascita-ecommerce/>)

instantaneously. It had become not just a formidable front-of-house business tool, it had become a competitive advantage⁸⁹.

2.2. E-commerce market

2.2.1. Overview

Italian e-commerce is one of the markets with the greatest potential. This is demonstrated by the comparison with foreign markets, which despite the fact that in Italy is continuing to grow at double figure every year, this one of 18%, the overall market penetration is still far away from other northern European countries.

In recent years, however, to conquer the most interesting sectors and to create the online marketplace were companies from abroad. Selling online means above all managing important economies of scale that allow you to invest in service and acquisitions.

They have done so in recent years Booking and Expedia in tourism, Amazon in consumer electronics and in publishing, Just Eat in food delivery, Zalando for the clothing despite the YOOX's resistance.

Today, new players are joining in sectors that have been more protected, such as pharmaceuticals. What makes the difference is the access to financing to make Italian e-commerce companies the ones that are expanding at international level and not the ones that are bought or worse put out of business⁹⁰.

⁸⁹ Michael Aldrich: *E-commerce, E-business and Online Shopping*. (June 2010) (<http://www.aldricharchive.com/ecommerce.html>)

⁹⁰ Casaleggio Associati: *Rapporto E-commerce in Italia 2019. Strategie di rete*. (April 2019) (https://www.casaleggio.it/wp-content/uploads/2019/04/Report_E-commerce-in-Italia_2019-1.pdf)

2.2.2. E-commerce worldwide in 2019

Worldwide, the number of people accessing the Internet is 4.3 billion, 6% more than in the previous year and about half live in the Asia-Pacific area.

Of these, 3.9 billion people benefit from the mobile network⁹¹ and 59% make online purchases via device⁹².

Average digital penetration in one year increased from 53% to 55.1%⁹³ and websites in the world is now 1.94 billion.

Last year 40% of the world's population - 2.81 billion people - made an online shopping and it is estimated that by 2022 online shoppers will reach 3.20 % billion⁹⁴.

The value of the world's retail e-commerce market for 2018 is estimated at \$2,875 billion, up 12% over the previous year and equal to 11% of total retail sales value. It is assumed that the share of total retail sales will increase until 2022, reaching \$4,035 billion⁹⁵.

Regarding geographical distribution, the Asia-Pacific region confirms its leadership in the global e-commerce market, with production of \$1,892 billion in 2018, 27% more than in the previous year. The area that is host to 60% of the world's population foresees a production of 2,336 billion dollars for the current year⁹⁶.

China itself, with one billion digital commerce users, produced a transit of 855 billion dollars in 2018, an increase of 19% over the previous year⁹⁷.

In addition to China, Japan is one of the most important countries in the world, and Korea, respectively in 4th and 6th place in the world digital spending ranking⁹⁸.

Internationalization has a strong impact on e-commerce figures in all countries, but many measures were taken in 2018 to protect individual countries.

⁹¹ Statista: *Global digital population as of January 2019*. (2019)

⁹² <https://worldpay.globalpaymentsreport.com/#/>

⁹³ Statista: *Global digital population as of October 2019*. (20 November 2019)

⁹⁴ Statista: *Number of digital buyers worldwide from 2014 to 2021*. (23 July 2019)

⁹⁵ Statista: *Retail e-commerce sales worldwide from 2014 to 2023*. (30 August 2019)

⁹⁶ Statista Research Department: *Retail e-commerce sales in Asia Pacific from 2014 to 2019*. (23 July 2019)

⁹⁷ Statista, China: *E-commerce*. (2019)

⁹⁸ Think with Google: *Insights on APAC Region*. (2019)

In India, for example, in order to defend the market and support national companies, has given a tight squeeze to the big foreign players who invest and sell massively on its territory.

From the beginning of 2019, in fact, the visibility of the products of these players on marketplaces is limited to a maximum of 25% of the occurrences and they are prohibited from owning shares directly or selling products of third-party companies with which they have partnerships⁹⁹.

To deal with this measure, there is first and foremost Amazon, which in four years and with an investment of 3 billion dollars, he had conquered 31% of the Indian market becoming the main player¹⁰⁰.

Just this year he had made some major investments to add Hindi among the languages of the site and apps, but he was forced to remove about 400,000 products from the Indian market¹⁰¹ for a value equal to about one third of the 6 billions of dollars of his annual sales in the country.

The Asia-Pacific region was followed by the United States, which generated an estimated \$504 billion in direct sales in 2018, a 23% increase over the previous year¹⁰². Amazon is one of the leading U.S. players and in September 2018 reached \$1 trillion in market capitalization, with \$148 billion in revenues and \$11 billion in profits, about double the previous year. The company in the USA represents 49% of online sales, followed by Walmart. It also accounts for 5% of all US sales - on and offline¹⁰³.

⁹⁹ Financial Times: *India puts the squeeze on Walmart and Amazon*. (2019)

¹⁰⁰ Forbes: *How Walmart Beat Out Amazon For India's Flipkart, And Softbank Stands To Profit*. (2018)

¹⁰¹ Business Insider: *Revisiting Business Insider Intelligence's 2018 e-commerce predictions — here's how they turned out*. (27 December 2018)

¹⁰² Re Statista: *Retail e-commerce sales in the United States from 2017 to 2023*. (2 December 2019)

¹⁰³ eMarketer: *Top 10 US Companies, Ranked by Retail Ecommerce Sales Share, 2018*. (2018)

2.2.3. European e-commerce

In Europe 79.6% of the population accesses the internet and it represents the continent with the highest penetration¹⁰⁴. During 2018, 69% of internet users made an online purchase, an increase of 1% compared to the previous year¹⁰⁵, and 6 out of 10 European consumers used mobile to make an online purchase last year¹⁰⁶.

Online retail sales amounted to €313 billion compared to €285 billion a year previous, with an increase of 9%¹⁰⁷. Selling online are 18% of companies, while 16% receive orders from third-party sites or apps¹⁰⁸.

Western Europe of the 5 (France, Germany, Italy, Spain, France, Italy and the UK) is estimated to be by 2022 will exceed \$400 billion in direct e-commerce sales¹⁰⁹.

Among the sectors that have the greatest impact on European production are: Fashion with 92billions of euros, Electronics and Media with 73 million, Leisure with 60 million, Furniture and Food and Health and Beauty respectively with 43 billion euros each¹¹⁰.

European citizens are making more and more purchases outside the borders of their own country of origin. In fact, while 44% of Europeans make purchases only in their own country, there are 47% who buy indiscriminately abroad and 9% who buy only abroad¹¹¹. It purchases mainly from China, UK, USA and Germany¹¹².

In the legislative field, a number of measures have been taken to promote e-commerce. With the aim of introducing more competition in the digital payments market, in January 2018 it was entry into force of the PSD2 (Payment Services Directive 2) regulation.

¹⁰⁴ Statista: *Global internet penetration rate from 2009 to 2019, by region*. (2020)

¹⁰⁵ Eurostat: *E-commerce statistics for individuals*. (2019)

¹⁰⁶ Postnord: *E-commerce in Europe 2018*. (2018)

¹⁰⁷ Statista, Europe: *E-commerce*. (2019)

¹⁰⁸ ICE Agenzia, Politecnico di Milano: *Esportazioni e-commerce delle imprese italiane*. (2018)

¹⁰⁹ eMarketer, Karin von Abrams: *Western Europe Ecommerce Trends in 2019*. (13 February 2019)

¹¹⁰ Statista, Europe: *E-commerce*. (2019)

¹¹¹ Paypal: *PayPal Cross-Border Consumer Research 2018*. Global Summary Report. (2018)

¹¹² Google: *Consumer barometer*. (2019)

The Directive requires banks to grant safe and secure access to accounts, and payment information to all digital payment providers, be they other banks, fintech or "third parties", such as instant payment providers such as Alipay, Amazon, Apple pay, etc¹¹³.

2.2.4. E-commerce in Italy and online counterfeiting

In Italy, the diffusion of online among the population aged 2 years and over has reached 70% recording, in the month of December 2018, an average of 42.3 million unique users in the month, which is connect both fixed and mobile.

Compared to last year the figure seems lower, but the population share has been expanded to include children aged 2 to 11 years old and people over 74 years old for the desktop device.

Desktop browsing decreases (from 35.4 to 28.4 million unique users per month), while mobile remains constant and is used monthly by 67% of the population¹¹⁴.

There are around 38 million consumers online, or 62% of the population, and by 2023 they are expected to reach 41 million¹¹⁵.

In Italy the smartphone is used by online shoppers much more than in the rest of Europe. In fact, 85% of the web population uses mobile to shop¹¹⁶.

As you can see form the figure below, the value of the e-commerce turnover in Italy in 2018 is estimated at 41.5 billion euros, with a 18% growth over 2017.

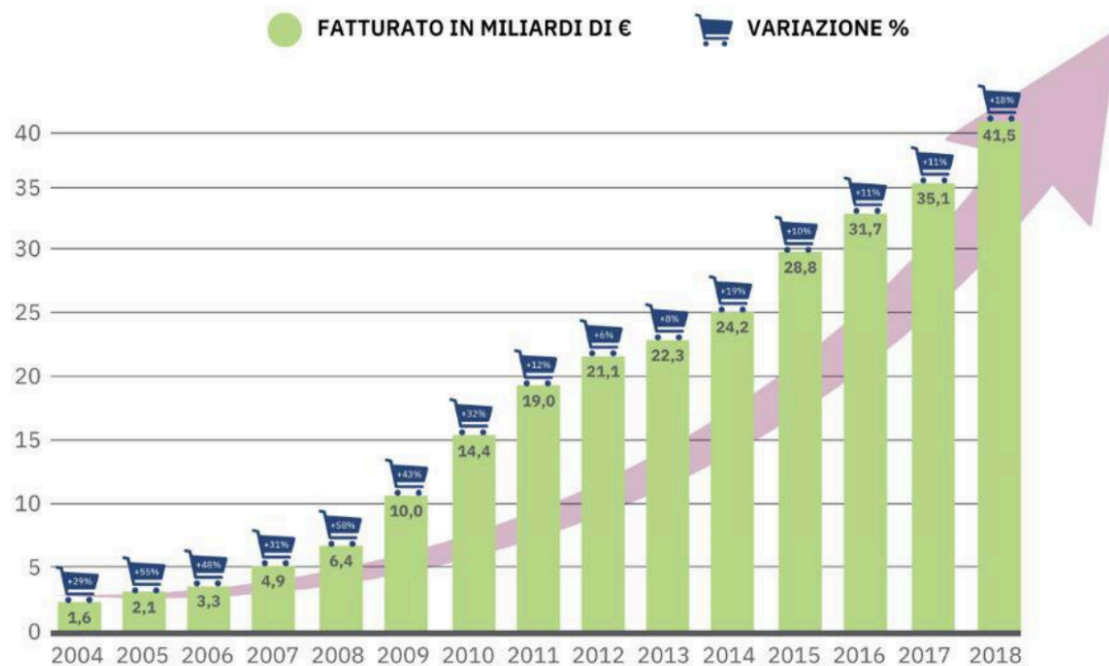
¹¹³ Casaleggio Associati: *Rapporto E-commerce in Italia 2019. Strategie di rete.* (April 2019) (https://www.casaleggio.it/wp-content/uploads/2019/04/Report_E-commerce-in-Italia_2019-1.pdf)

¹¹⁴ Audiweb: *Total Digital Audience del mese di dicembre 2018.* (17 January 2019)

¹¹⁵ Statista, Ksenia Striapunina: *Italy: retail E-commerce revenue forecast from 2017 to 2024.* (6 January 2020)

¹¹⁶ Mastercard: *European Mobile Commerce Study.* (2018)

CRESCITA DEL FATTURATO E-COMMERCE



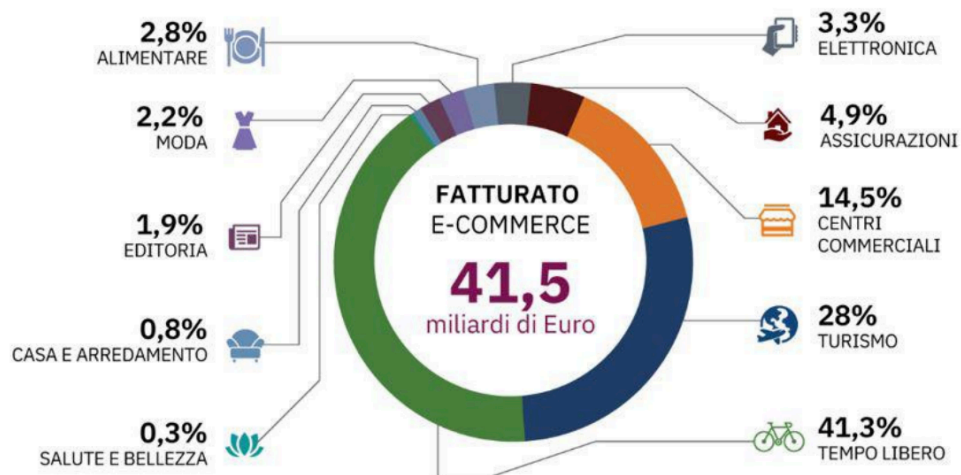
FONTE: CASALEGGIO ASSOCIATI, 2019

E-commerce turnover in Italy and annual growth:

2004: 1.645.683.000 euro
2005: 2.123.495.000 euro +29%
2006: 3.286.223.000 euro +55%
2007: 4.868.336.000 euro +48%
2008: 6.364.907.000 euro +31%
2009: 10.037.544.000 euro +58%
2010: 14.357.589.000 euro +43%
2011: 18.970.504.000 euro +32%
2012: 21.154.120.000 euro +12%
2013: 22.337.275.000 euro +6%
2014: 24.188.468.000 euro +8%
2015: 28.850.766.000 euro +19%
2016: 31.671.827.000 euro +10%
2017: 35.133.577.000 euro +11%
2018: 41.519.772.000 euro +18%

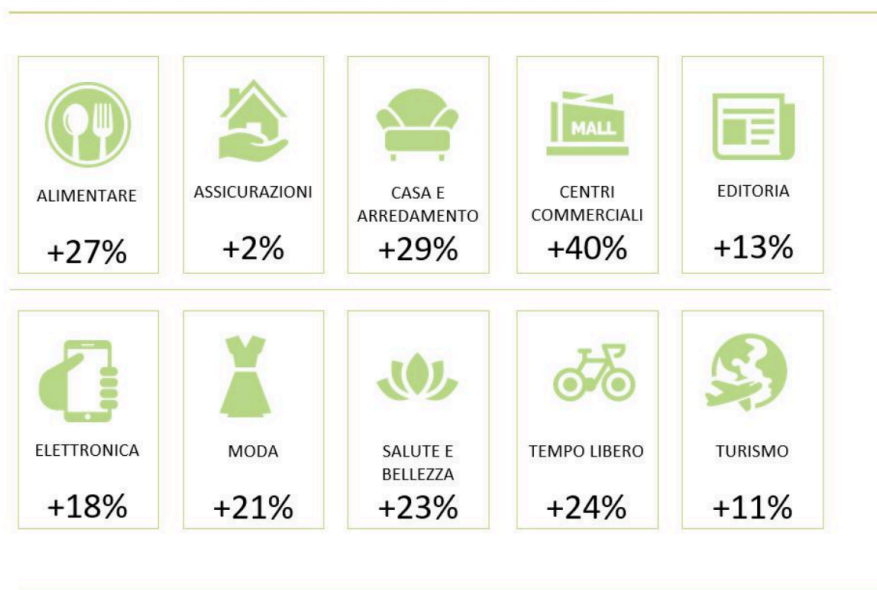
Leisure is the sector that continues to hold the largest share of e-commerce sales (41.3%), followed by Tourism (28%). Shopping Centres continue their growth (+39%), reaching 14.5% compared to 12% turnover last year. To the three big sectors follow: Insurance (4.9%), Electronics (3.3%), Food (2.8%), Fashion (2.2%), Publishing (1.9%), Home and furniture (0.8%) and Health and Beauty (0.3%).

DISTRIBUZIONE DEL FATTURATO



FONTE: CASALEGGIO ASSOCIATI, 2019

In 2019 the percentual growth of the turnover in the different sectors is shown as follow:



In our country there are 19 million consumers who buy online, compared to 40 thousand companies that sell on the web. In 2016, compared to 14 thousand billion euros of GDP in the European Union, 5% was produced by online commerce. Although Italy has only 3% of total EU e-commerce, it can still boast an estimated value in goods and services purchased in 2016 of about 16 billion euros. A large online marketplace, which has grown exponentially along with new forms of illegality.

Between counterfeit goods and digital piracy products, illegal activities are often in the hands of international criminal organizations. Online counterfeiting is growing every year by 15.6% worldwide. With an estimated cost to the economy of \$1.8 trillion¹¹⁷.

The Committee of Inquiry into Piracy and Illegal Trade has devoted a long investigation to counterfeiting on the web. The final report arrived at the Montecitorio Chamber in 2016, analysing the picture of the problem of online counterfeiting. It is the final report itself that acknowledges that the intangible dimension of e-commerce and the global characteristics of the internet “make it extremely difficult to activate effective forms of combating the commission of offences via the web. Not forgetting

¹¹⁷ <https://www.linkiesta.it/it/article/2017/07/20/marchi-falsificati-e-prodotti-contraffatti-tutti-i-rischi-che-corriamo/34960/>

the inadequacy of e-commerce laws, the existing legal framework - the final report approved in committee states - appears very deficient and outdated”.

It is the very nature of e-commerce that makes the fight against torts complicated. The Net helps authors of illegality to hide their identity and multiplies the number of virtual points of sale in which to hide themselves. The immaterial and global nature of the web is still a huge obstacle. And the lack of global internet governance, the commission explains, sometimes makes it difficult to protect consumers and victims¹¹⁸.

2.3. Main trends of the e-commerce phenomenon

The main trends in e-commerce that will characterize the 2020 are five:

1. Personalization and customer involvement

Compared to the traditional retail, e-commerce stores lack personal face-to-face interactions. Online stores do not have a retailer who can recommend products based on their interests, tastes and preferences.

To simulate this experience, e-commerce companies take advantage of customization opportunities throughout the shopping experience.

By using personal online information such as search queries, page visits and purchase history, brands transform their online stores to best meet customer needs and interests. For example, sign into your Amazon account. You will find recommended products based on your previous purchases, personalized ads based on your search history, and a marketing copy that speaks directly to you.

¹¹⁸ Linkiesta, Marco Sarti: *Marchi falsificati e prodotti contraffatti, tutti I rischi che corriamo quando compriamo online*. (20 July 2017) (<https://www.linkiesta.it/it/article/2017/07/20/marchi-falsificati-e-prodotti-contraffatti-tutti-i-rischi-che-corriamo/34960/>)

Just as personalized emails generate 6 times higher transaction rates and convert better than cold emails, consumers spend 48% more when their experience is personalized¹¹⁹.

2. Artificial Intelligence

From custom 3D avatars and virtual fashion consultants to data collected and analysed to increase sales: artificial intelligence is revolutionizing the world and has a big impact in e-commerce¹²⁰.

Robots such as chatbots and artificial intelligence (AI) designed to enhance a customer's overall shopping experience.

AI Assistants can manage a number of tasks typically assigned to a human being, such as inventory management or request management. These digital assistants perform various processes, freeing up time to focus on other aspects of business management. For example, chatbots can meet a variety of customer support needs, from answering questions about a product to discussing a complaint¹²¹.

Moreover, Amazon has created virtual fashion consultants and presented Echo Look in the United States as early as 2017: the virtual fashion assistant provides clothing advice based on algorithms and the advice of a designer.

3. Voice Commerce to talk to customers

Voice technology makes everyday life easier and changes the way you search online. Voice search provides a unique result, the most suitable for the user.

4. Subscription sales in e-commerce

Both customers and businesses can benefit from a subscription-based model. Sales can be accurately calculated, drop-out rates are reduced, and performance can be scaled down based on orders. This business model does not fit every type of product. A user

¹¹⁹ <https://ecommerce-platforms.com/it/articles/5-future-ecommerce-trends-of-2019>

¹²⁰ Nadine Jager: *I 5 trend e-commerce che ci accompagneranno nel 2020*. (30 October 2019) (<https://www.news.srl/e-commerce-trend-2020/>)

¹²¹ <https://ecommerce-platforms.com/it/articles/5-future-ecommerce-trends-of-2019>

will not want to buy a new TV every month, but it lends itself very well to other "consumable" products such as pet food, supplements, home and beauty products. All the e-commerce trends listed have one thing in common: they revolve around the centrality of the customer. This makes it clear that retailers should offer their customers a multi-channel shopping experience in order to build customer loyalty in the future¹²².

5. *Social Shopping*

Another e-commerce trend is definitely social shopping. This trend goes beyond mere advertising or influencer marketing. The products tagged in the post show the user product information such as prices, product names or store links. This because people spend more than two hours a day on socials and want to buy directly from there¹²³.

2.4. The main dangers of online purchasing

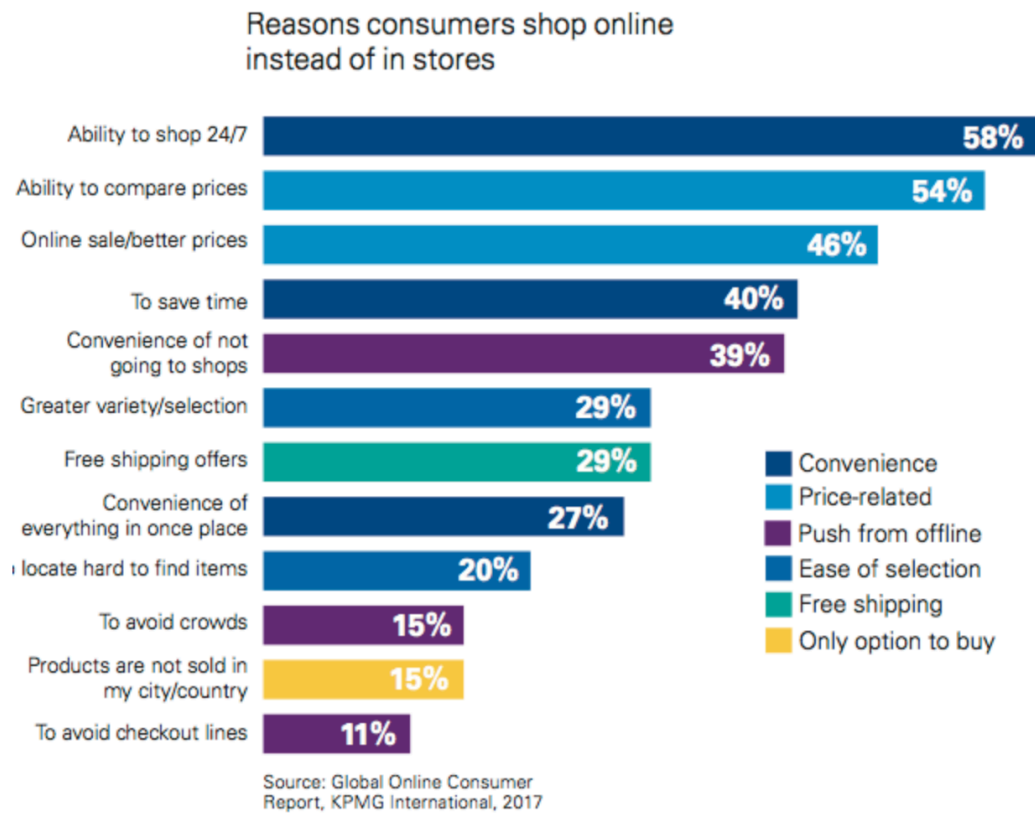
KPMG International has conducted a survey in which it highlights the main advantages and disadvantages still perceived by consumers when shopping online today. This survey is useful to understand the points of greatest consumer resistance to a system such as e-commerce, which is constantly expanding.

Users have very clear that buying online offers benefits that the physical store cannot give. Here we analyse the main advantages and disadvantages perceived by users in relation to e-commerce and internet shopping.

¹²² Nadine Jager: *I 5 trend e-commerce che ci accompagneranno nel 2020*. (30 October 2019) (<https://www.news.srl/e-commerce-trend-2020/>)

¹²³ <https://www.studiosamo.it/web-marketing/e-commerce-nel-2020-i-cambiamenti-le-evoluzioni-e-i-trend-che-lo-caratterizzeranno/>

2.4.1. Advantages of online shopping



There are many different advantages as shown in the figure above such as:

- Shop open 24 hours a day, 7 days a week:

One of the main advantages that consumers choose to buy online is the ability to buy at any time of the day or night. The online store is always open and this makes it easier for consumers to manage their shopping time as they see fit.

- Possibility to compare prices to choose the most convenient one

When you buy online you can in a few clicks visit different sites that sell the same product you want and choose the one that has the best price.

- Time saving

Going physically to a store can take a long time. It is often necessary to travel by car, with all the problems related to traffic and parking. In addition, sometimes after all the effort made, the product you are looking for is not present or not convincing. You save time by buying online, because what you are looking for is at your mouse's reach.

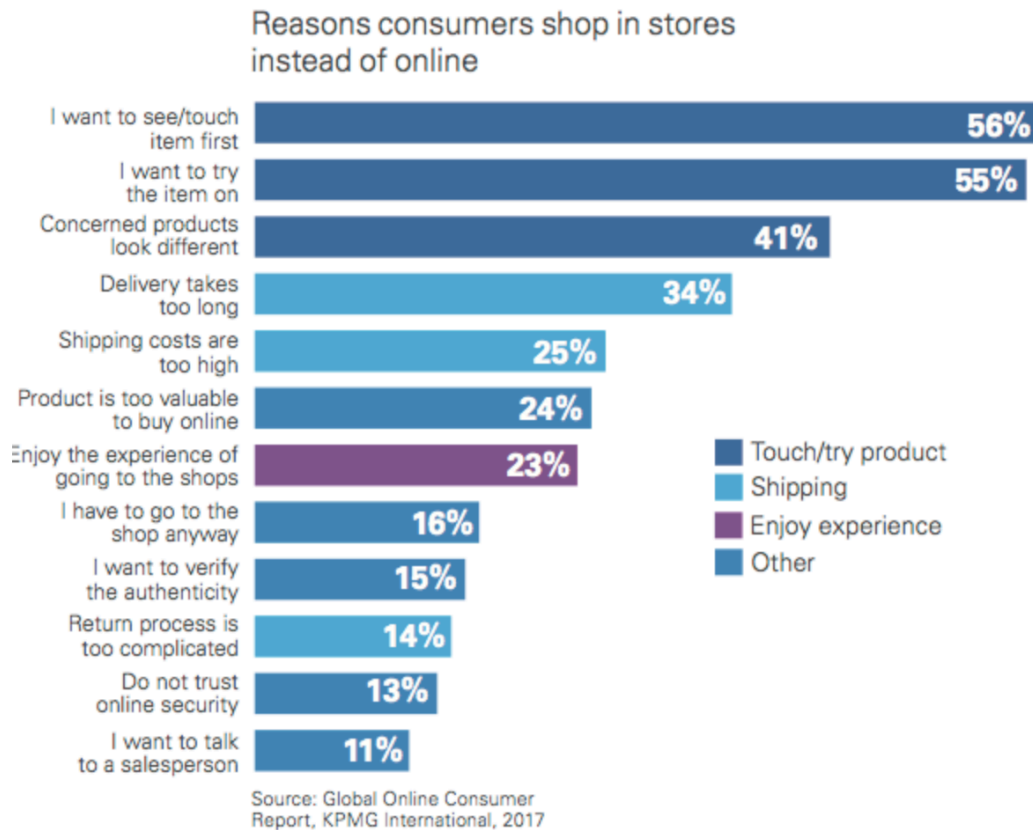
- Wide variety of choice also of niche products

The network is full of virtual shops that can be 'visited' in a very simple way offering the consumer the possibility to find really and exactly what they want. Even when you are talking about products that are difficult to find or completely absent in your city, the network offers a way to find and buy them.

- Avoiding crowd

Dealing with crowds is one of the negative aspects of buying from a physical store. Shopping malls are crowded with people; long queues can be encountered at checkouts. All this does not exist when it comes to online shopping. The checkout is always free, there is no crowd.

2.4.2. Disadvantages of online shopping



As for the positive aspects, there are some negative ones as shown in the figure above:

- Inability to see and physically test the object

Among the main disadvantages of buying online is the inability to see, touch, smell and physically try the item you want to buy.

- Delivery time too long

Sometimes the couriers responsible for delivering products purchased online can take several days to deliver the item. This can create consumer resistance when buying products online.

- Need to buy a very valuable product

Products that are too valuable, such as engagement rings or cars, are generally not purchased via the web. For these products, purchase in the physical store is still preferred.

- Difficulties in the process of returning goods

Some consumers have stated that they feel reluctant to buy online because of the complicated process of returning the newly purchased goods. This barrier can be overcome by making the return mechanism clear and offering continuous customer support.

- Lack of trust in e-commerce systems

Some of the consumers surveyed said they do not trust the security systems associated with e-commerce. Comparing this figure with the same one from a few years ago shows a sharp drop in the percentage. While less than a decade ago, one in two users admitted that they did not trust e-commerce, today the rate has dropped to 13 percent.

- Need to talk to a salesman

Finally, some consumers have stated that they do not rely on online shopping systems because they feel the need to confront a salesperson before making a purchase. To overcome this problem, chat systems can be implemented on the company's website that allow the possible customer to have a secure guide in the conversion process¹²⁴.

¹²⁴ <https://www.communicationvillage.com/blogs/2017/10/20/vantaggi-e-svantaggi-acquisto-online/>
(20 October 2017)

2.4.3. Dangers of online purchasing

In recent times the volume of business generated by Web shopping has grown exponentially, also highlighting an increased interest of Italian companies and consumers towards foreign markets.

However, on the Net, full consumer protection seems difficult to achieve, especially if you decide to buy abroad where different regulations apply. And this is undeniable when you buy a good that you have not seen materially from a seller you have never met.

Thus, the relationship between seller and consumer in e-commerce changes in a virtual space, which makes it difficult to establish a relationship of trust. The picture becomes more complicated when one thinks of third parties who may intrude with intentions that are not always clear and peaceful. In fact, online transactions open the scenario to new forms of crime such as theft of credit card codes or violation of access and use of sensitive data.

Before buying a product or using a service on the Internet, you must check the sales policies and conditions of withdrawal (through the information that can be highlighted on the characteristics of the product), delivery times, costs and shipping costs. It is also important to collect all data to be sure of the real identity of the seller.

Another fundamental aspect in order not to fall in criminal situation is to verify the existence of the certification, i.e. a certificate proving the correspondence between a given site and a natural or legal person.

Moreover, it is preferable to choose sites with the precise indication of a quality label, issued by an external body, which certifies that the site carries out activities in compliance with consumer rights. Currently in Italy the most popular brands on the Net are: Webtrader, E-quality mark and Qweb.

Last but not least is necessary to check that there are guarantees for the processing of personal data¹²⁵.

2.5. Online counterfeiting

2.5.1. Counterfeiting as illegal act

The act of infringement of the trademark consists of the use or the use of the reproduction of another person's trademark in such a way as to mislead the consumer. This undoubtedly leads to liability on the part of the infringer and a series of damages on the part of the owner of the original trademark. On the basis of these elements, the act of infringement can be considered as an unlawful act, or as stated in Article 2043 of the Italian Civil Code “*Any intentional or negligent act, which causes unjust damage to others, obliges the person who committed the act to pay damages*”¹²⁶.

From what emerges from this article, in order to identify an act as an unlawful act, there must exist different requirements.

First of all, must be the causal link can also be defined as the relationship of cause and effect that must exist between the action and the event in order for the conduct itself to be punishable.

It is necessary that there is such a connection between the conduct and the event that one can be traced back to the other and that the conduct is the cause that caused the event; otherwise the fact cannot be attributed to the person¹²⁷.

It will therefore be necessary to prove that, as a result of the illegal activity carried out by the counterfeiter, the owner has suffered a quantifiable damage in terms of turnover and image.

¹²⁵ Ministero della Difesa, Carabinieri: *I rischi dell'E-commerce*.

(<http://www.carabinieri.it/cittadino/consigli/tematici/internet/i-rischi-dell'e-commerce>)

¹²⁶ <https://www.ricercagiuridica.com/codici/vis.php?num=10545#id1>

¹²⁷ https://www.altalex.com/documents/altalexpedia/2016/09/26/causalita-penale#_Toc462399522

As regards the requirement of the injustice of the damage, it is to be considered really “unfair” only the damage that materializes in the injury of a subjective situation worthy of protection and, therefore, protected by the law with the prohibition of *neminem laedere*, taking into account the principles and scale of values accepted by the law at a given historical moment. Precisely in observance of the progressive tendency to widen the range of subjective situations subject to protection, recently, a series of cases have also been included in the list of the positions guaranteed by Art. 2043 Civil Code, which, before, the doctrine was difficult to understand. By way of example, one thinks in this regard of the right to privacy, personal identity, health and even the healthiness of the environment (on the last case mentioned, see the famous sentence of the Constitutional Court No. 641/1987). The ruling of the Supreme Court (Civil cassation, United Sections, judgment no. 500/1999), according to which even legitimate interests can be compensated under certain conditions. It follows that, when a Public Administration, through the issue of an illegitimate act, carried out with intent or negligence, causes unjust damage to third parties, the judge may sentence it to pay damages pursuant to Article 2043 of the Italian Civil Code¹²⁸.

Finally, it is important to analyse the compensation and contributory negligence. If the injured party has culpably contributed to causing the damage, the compensation shall be reduced depending on the severity of the fault and the extent of the consequences. The injured party is obliged to pay compensation only if the damage caused is unjust, since it affects an interest which the legal system recognises as deserving protection and the foreseeability of the damage is not relevant for the purposes of compensation¹²⁹.

From the point of view of online trade, this area has some peculiarities regarding the following subjects involved. In addition to the owner of the counterfeit trademark, the other parties involved are the advertiser the advertiser is the company commissioning the advertising campaign or the media centre which, on behalf of the company, plans and buys the advertising space necessary for the campaign and therefore commits the

¹²⁸ https://www.studiocataldi.it/guide_legal/responsabilita_extracontrattuale/elementi-della-responsabilita.asp

¹²⁹ <http://www.sapere.it/sapere/strumenti/studiafacile/diritto/Diritto-civile/Le-obbligazioni/Il-fatto-illecito-e-la-responsabilita-extracontrattuale.html>

act of counterfeiting¹³⁰; and the Internet Service Providers (or ISPs) that are defined as “that person who carries out a business activity that offers users the provision of services related to the Internet”, in essence it is the one who provides third parties with access to the network, using a remote connection via telephone line or broadband¹³¹.

2.5.2. Types of online counterfeiting

There are many forms of counterfeiting on the web of trademarks and other distinctive signs or digital piracy in violation of copyright. The possibility of detecting fraud and the identification of the main forms of access to the trade in counterfeit goods on the net differs because of the different forms that e-commerce has taken, in line with the continuous process of evolution of the net.

In legislation - under the Directive on electronic commerce 2000/31/EC, in Legislative Decree No 70 of 9 April 2003, which implemented the Directive, and in Article 1(1)(b) of Law No 317 of 21 June 1986, as amended - persons operating in the digital world are defined as “information society service providers”, that is to say, persons who carry out economic activities by carrying out those activities online and any information society service normally provided for remuneration, at a distance, by electronic means and at the individual request of a recipient of services.

The providers specialized in e-commerce offer differentiated services for different types of transactions and types of users receiving the services: the most relevant cases are those of Business to Business (B2B), i.e. sale of goods between two business realities (companies, public bodies or professionals); Business to Consumer (B2C), sale of goods between professional business operators and consumers (so-called e-shoppers); Peer to Peer (P2P), where a plurality of customers come into contact with each other, selling, buying or exchanging, especially digital audio-visual products.

¹³⁰ <https://www.glossariomarketing.it/significato/advertiser/>

¹³¹ <https://www.altalex.com/guide/internet-service-provider>

Providers that have created important digital platforms for e-commerce, see the case of e-Bay or Alibaba, provide online space both to sites managed by vendors, who act as intermediaries between the products made by companies and consumers, and to sites owned by manufacturing companies, who sell their products directly; some of these large platforms, for example Amazon, have themselves become sellers of the products, of which they acquire ownership, intended for e-commerce, managing an intermediation activity, with the creation of warehouses for storing goods, between manufacturers and consumers. Access to online sales sites is also available through search engines, see the case of Google, which through algorithmic search of goods and brands connects sellers and buyers in the e-commerce sector, also providing ancillary services, such as advertising. The so-called web 2.0 platforms, blogs, wikis and social networks (see the case of Facebook), in which a plurality of users intervene in a two/multi-directional way, born and operating as a form of social communication, have developed important tools for commerce, with the assignment of accounts to people professionally dedicated to commerce¹³².

2.5.3. Techniques of online counterfeiting

Counterfeiting has been contaminated and changed with the advent of the global market and the proliferation of media and diffusion, firstly the Web. The advent of the new economy and the growing number of potential consumers has in fact led manufacturers to make massive use of advertising to allow their products to be seen on a large scale. Another factor that has taken over in recent years and not insignificant, is the economic crisis that has led more and more people to buy, even knowingly, counterfeit goods. The best possible result at the lowest possible cost has developed. As is well known, counterfeit products, as they are made in clandestine laboratories and with low quality raw materials, offer a much lower final price, inducing the consumer to purchase and consequently to develop this parallel world¹³³.

¹³² Camera dei Deputati, Commissione Parlamentare di inchiesta sui fenomeni della contraffazione, della pirateria in campo commerciale e del commercio abusivo, Doc. XXII-bis N. 9: *Relazione sul fenomeno della contraffazione su web*. (2017)

¹³³ Iemma Giuseppe: *Dalla contraffazione alla pirateria digitale: origini ed analisi socio-economica del fenomeno*. (12 July 2016)
(<https://www.diritto.it/dalla-contraffazione-alla-pirateria-digitale-origini-ed-analisi-socio-economica-del-fenomeno/>)

In fact, this trend has been widely manifested with the use of the Internet, which has generated quite a few difficulties. Interpretation and application of trademark law in the new technological context. Some new counterfeiting techniques have emerged: the use of distinctive signs as keywords in the Net has led to the phenomenon of *keyword advertising*, the registration of domains web easily traceable to well-known brands or famous people to gain an advantage economic has been identified as *cybersquatting*, while *meta-tags* consist of the use of marks within the HTML code of web pages.

1. Keyword advertising

Online advertising is constantly evolving, the old campaigns have been replaced for some years now by promotional forms closer to the current habits of users, among which certainly stands out the constant, daily and very intense use of search engines such as Google to respond to all kinds of curiosity and to search for products and services that meet their needs. The keyword advertising was born with the idea of exploiting this attitude of consumers for advertising purposes.

Keyword advertising is a mode of online advertising based on the concept of keywords, that is, words or phrases used to connect advertisements with the terms that people are using for a search. Therefore, the promotional message is presented to the user in response to a specific search and request or in relation to certain terms that appear on a page of a site.

Most users, when looking for any topic on which they wish to have more information, or specifically a product or service, use Google which, in response to the keywords used for the search, offers a series of natural (or organic) results together with paid ads, related to the keywords themselves. Being, therefore, a type of targeted advertising, keyword advertising is less invasive and has many possibilities to be effective since the ads respond to an information need expressed by the target audience itself¹³⁴.

The latter represents a new way of advertising, called web advertising, which, in other words, “allows you to offer paid listings of search results on words that are relevant to

¹³⁴ Stefano Stancari: *Keyword Advertising: keyword-based advertising*. (2015) (<https://www.thismarketerslife.it/digital/keyword-advertising/>)

the advertiser's business”¹³⁵. This system has made these key words so important that they have become a real hallmark.

This new type of advertising is legitimate in itself, however, the advertiser will have to pay attention to which keywords he or she decides to use; the choice of an equal or similar keyword to another company operating on the market, could lead customers to the so-called risk of association between the advertiser company and the trademark of others, thus falling into a real hypothesis of trademark counterfeiting¹³⁶.

2. *Cybersquatting*

According to the U.S. Anti-cybersquatting Consumer Protection Act, cybersquatting consists of registering or using a web domain in bad faith to try to make financial gain from trademarks registered and belonging to another party.

Cybersquatters earn most of their profits by reselling these domains to those who hold the rights to the exploited signatures.

Cybersquatting is a crime in most industrialised countries. In Italy, anyone who believes that their trademark is being used by an unauthorized person can go to justice. Although no specific legislation is yet in place, this generally falls under trademark protection laws.

It should be noted that, according to ICANN (Internet Corporation for Assigned Names and Numbers) policies, the following conditions must be met for a domain to be considered abusive:

- the author of the cybersquatting must have registered the domain for dishonest purposes;

¹³⁵ <http://www.glossariomarketing.it/significato/keyword/>

¹³⁶ Giorgio Spedicato: *La sottile linea di confine tra esclusiva sul segno e usi leciti del marchio altrui: prime riflessioni sulla giurisprudenza comunitaria in materia di keyword advertising*. Giuffrè (23 March 2010)

- the person requesting the reassignment of the domain must have a clear right to the domain;
- the domain name must be identical or confusable with the name or signature of the person requesting the reassignment¹³⁷.

The website of the Italian Ministry of Justice defines cybersquatting in this way: “It is an illegal act of computer piracy, which consists in appropriating the name of an already existing domain name and then reselling it at a much higher price” and indicates it as criminal conduct, referring to the different articles and regulations¹³⁸.

3. *Meta-tags*

Meta-tags are the set of Instructions in HTML language contained within web pages, which provide various information to search engines, including the title of the page, the author of the page, the program used for the construction, the description and keywords.

Meta-tags, such as domain names, can also be a source of liability for webmasters who enter keywords within the same keywords which may result in a violation of competition rules or a violation of the right to a name.

Meta-tags, having the function of attracting surfers to their site, peacefully fall within the definition of advertising message.

¹³⁷ Matteo Cascusa: *Cybersquatting: cos'è e come difendersi dal furto di domini Web*. CyberSecurity360 (29 March 2019) (<https://www.cybersecurity360.it/nuove-minacce/cybersquatting-cose-e-come-difendersi-dal-furto-di-domini-web/>)

¹³⁸ art. 473 of the Italian Penal Code (counterfeiting, alteration or use of distinctive signs, intellectual property or industrial products);
 art. 640 of the Italian Penal Code (fraud);
 art. 7 of the Italian Civil Code (right to the name);
 artt. 2569 - 2574 of the Italian Civil Code;
 D.P.R. 795/1948;
 Decree Law 480/1992;
 D.P.R. 595/1993;
 Decree Law 189/1996 (regulations on trademarks and distinctive signs).

Article 19 of Legislative Decree no. 206 of 6 September 2005, the so-called “Consumer Code”, states briefly but effectively that “advertising must be clear, truthful and correct”.

There are various rulings on the subject, including, for example, the one of the Court of Rome of 18.1.2001, which admits the liability of an insurance company that included the name of a competitor among the meta-tags of its website.

It is clear that, if a trademark of another person is used as a meta-tag, this behaviour gives concrete form to a hypothesis of trademark infringement, thus damaging the legal good of the certainty of the indication of origin or provenance of the goods or services marked with a specific distinctive sign and also creates confusion in the public source of responsibility for unfair competition.

The use of meta-tags can also configure hypotheses of misleading advertising pursuant to art. 20 letter b of Legislative Decree 206/05 when the keywords entered aim to deceive the user, potential customer, misleading him about the product or service that is promised for sale¹³⁹.

2.5.4. The absence of a global internet *governance*

Another factor that contributes to making it difficult to combat counterfeiting on the Internet is the lack of global governance of the Internet and the global digital environment. The absence of an international regulatory authority contributes to the lack of a single, overarching interlocutor between ISP operators, businesses and consumers concerned to whom rights holders who consider themselves to be harmed can address their claims.

The network governance model is widespread and largely unregulated at international level. The allocation of domains and IP addresses is entrusted to a body operating under US law - ICANN - which allocates top-level domains and root servers.

¹³⁹ Polimeni.Legal: *Legal advice on meta tags and keywords in websites*. (26 March 2014) (<https://www.polimeni.legal/blog/consulenza-legale-su-meta-tag-e-keyword-nei-siti-web/>)

As regards specifically the fight against counterfeiting, it was noted at the hearing how the practice of allowing the registration of generic domains (e.g. sites with names of species of food products) may be in contrast to the need to protect goods where it is not the gender but the specificity of national and geographical production that counts, as noted by the EU Observatory on IP infringements. The purely communicative or commercial dimension of network activities does not allow to evaluate these aspects from the point of view of preventing the commission of offences.

In this sense it is also necessary to question governance models with the adoption of not only top-down but also bottom-up approaches, aimed at introducing forms of bottom-up control, which in the counterfeiting sector coincide with the ownership of injured interests and the protection of consumer interests.

For this reason, the question of greater regulation of the sector has been raised at Community level. In this respect, the EU Commission considered that one of the priorities for its action on digital communication is the creation of a Digital Single Market (DSM), in which to achieve harmonisation of the national rules currently in force, in order to create a true single digital market¹⁴⁰.

2.5.5. The responsibility of the internet providers in Jurisprudence

The contributions of the Jurisprudence are important for the extension of the forms of protection in the case of counterfeiting.

Three judgments of the European Court of Justice should be mentioned in recognising limitations on liability.

The judgment of 23 March 2010 in the case “Google adwords vs. Lvmh” recognised the possibility of using “keywords corresponding to other people's trademarks in an internet referencing service” for advertising purposes. It has been clarified that ISPs are subject to the limitations on the liability of the intermediary provided for in the E-

¹⁴⁰ Camera dei Deputati, Commissione Parlamentare di inchiesta sui fenomeni della contraffazione, della pirateria in campo commerciale e del commercio abusivo, Doc. XXII-bis N. 9: *Relazione sul fenomeno della contraffazione su web*. (2017)

Commerce Directive 31/2000/EC, as the activities of such operators are to be considered “purely technical, automatic and passive”.

In its judgment of 12 July 2011 “L'Oreal vs e-Bay”, the Court of Justice specified that where goods, which are located in a third State, bearing a trade mark registered in a Member State of the Union or a Community trade mark and not previously marketed in the European Economic Area or in the Union, are sold online by an economic operator without the consent of the proprietor of the trade mark to a consumer in the territory for which the trade mark in question is registered, the Court of Justice has ruled that those goods must be sold online, or are the subject of an offer for sale or advertising on that market, the proprietor of the trade mark may oppose the sale, offer for sale or advertising in accordance with the rules laid down in Article 5 of Directive 89/104/EEC to approximate the laws of the Member States relating to trade marks, as amended by the Agreement on the European Economic Area of 12 May 1992, or Article 9 of Council Regulation (EC) No. 40/94 on the Community trade mark. It is for the national courts to assess on a case-by-case basis whether there are relevant elements to conclude that an offer for sale or advertising appearing on an online marketplace accessible in that territory is intended for consumers in that territory.

Finally, in the judgment *Tiffany (NJ) Inc. vs. eBay Inc.*, no. 04 Civ. 4607 (RJS) (S.D.N.Y. of July 14, 2008), the role of eBay in reducing the sale of counterfeit goods was recognized, with the possibility of out-of-court appeals by trademark owners and the adoption not of passive but proactive behaviour, through the VeRO program¹⁴¹, an anti-fraud search engine in addition to targeted manual interventions.

¹⁴¹ The Verified Rights Owner (VeRO) program allows owners of intellectual property (IP) rights and their authorized representatives to report eBay listings that may infringe on those rights. VeRO embodies our commitment to provide a safe place to buy and sell, which respects property owners' rights.

2.5.6. Territorial jurisdiction on the web: The Tiffany Case

The judgement of the specialized section of Companies of the Court of Turin clarifying the criteria for determining territorial jurisdiction in the case of trademark infringement referred in particular to the reality of the Network which is always very complex in this specific matter.

The case in question concerns an alleged counterfeiting of trademarks (Tiffany, Tiffany & Co., Tiffany Blue) by a company which, in addition to carrying out commercial activity in its own shop, sells retail products through two websites and exploits, also at promotional level, all the specific channels of Web 2.0 (social networks, online portals, etc.). Faced, therefore, with the request of the owner of the trademark to prohibit any use of the same, as a distinctive sign, company name, domain name, as well as in any other form, including advertising or promotional and to obtain the seizure of the products reproducing the counterfeit trademark, the resistant company, among the various exceptions, opposes first of all the territorial incompetence of the Court of Turin (place where a product sold online was ordered and delivered), holding, instead, the Court of the city where the company has its headquarters.

Faced with this exception, therefore, the judge faces the problem of territorial jurisdiction in the light of the provisions of Article 120 of the Industrial Property Code. In particular, paragraph 6 of this provision establishes a special jurisdiction criterion with respect to the general criteria of the code of ritual, providing that “actions based on facts which are assumed to be prejudicial to the right of the plaintiff may also be brought before the court having a specialized section in whose jurisdiction the facts were committed”.

In examining the provision, the court notes that the concept of “commission of the act” is broadly interpreted by part of the case-law, which refers it not only to the place of conduct but also to the place where the harmful effects of that conduct occur and, in particular, to the place where the person affected by the infringing activity is established. But in particular, the rule of special jurisdiction laid down in Article 120 of the Criminal Code (by way of derogation from the principle of jurisdiction of the

courts of the defendant's domicile) is based on the existence of a particularly close connection between a given dispute and the place identified by that rule and this is in particular the key to the interpretation of the provision which the court considers decisive. On the other hand, this interpretation is also confirmed by the Supreme Court with reference to the jurisdiction provided for in Article 5 of Regulation (EC) No 44/2001 (Cassation S.U. 2700/2013).

In particular, when reference is made to the place of the conduct (to which article 120 refers when speaking of “facts ... committed”), the reason for the exception is clear, because the place where the damaging facts are committed is (presumably) the place where such facts can be more easily ascertained in court. When, on the other hand, reference is made to the place where the harmful event occurred, this concept must be defined in a manner consistent with the rationale of the rule, and must therefore be identified in the “place of election” where the damage from infringement occurs, in a given case.

These principles must also be kept in mind in order to determine the competence in case the infringement activity is carried out through a website. And precisely for this reason, the Court of Turin considers that if the offence consists of structural characteristics of the website, created with graphics, colours and other elements that infringe the rights of the right, the criterion of “proximity to the dispute”, which justifies the application of the special jurisdiction, can only be that of the place where, presumably, the activity of creating the website (i.e. data entry) was carried out. Similarly, when the offence consists in the sale, through the site, of counterfeit products, the same reasons lead to the identification of the place where “the facts were committed” in the place where the offers of sale are placed on the site.

These are, according to the General Court, the places where there is a significant connection, from the point of view of jurisdiction, with the dispute in progress, because of the ease with which the court of that place can gather evidence relating to it.

Article 120 of the Code of Criminal Procedure cannot be interpreted as allowing disputes relating to acts of infringement carried out through internet sites to be brought before any national court in the light of the aterritoriality of the Internet, but must be

interpreted along two exegetical lines: first, in the sense that this rule derogates from the general rules of the European Court of Justice¹⁴².

2.6. Initiatives to combat counterfeiting

The National Anti-Counterfeiting Council (CNAC) is the inter-ministerial body provided for by art. 145 of the Industrial Property Code, amended by Law no. 99 of 23 July 2009 – “Development Law”, with the function of “driving and coordinating the Strategic Actions undertaken by each administration, in order to improve the overall action against counterfeiting at national level”.

It draws up proposals for measures to be implemented in priority areas in the fight against counterfeiting. In this context, the two Permanent Commissions have played a central role in the drafting of this National Strategic Plan.

The Council considered that for the two-year period 2017-2018 the challenges to which it is necessary to respond in an increasingly incisive manner are those that can be traced back to six Thematic Priorities, which are the areas of action in which Administrations, Bodies and Associations are already operating and in which it is essential to continue to direct and implement the activities of the policies to combat counterfeiting.

Through the implementation of precise strategic actions, the CNAC has the objective of triggering a cultural change capable of reducing both supply and demand for counterfeit products. The plan, therefore, encapsulates a unified and integrated planning in the fight against counterfeiting. thus putting in place, on the one hand, “certain strategic guidelines and lines of action that can make the national production system more competitive (...)” and, on the other hand, “provides the tools to improve

¹⁴² Michele Iaselli: *Brand counterfeiting on the net: what is the territorial competence?* Turin Court, Judgment of 19 January 2016 (<https://www.altalex.com/documents/news/2016/02/01/contraffazione-su-internet-e-competenza-territoriale>)

policy in the sector and overcome its fragmentation, identifying actions and projects of interregional and national value that take into account the evolution of the phenomenon at international level”¹⁴³.

For each strategic action, according to the theme of reference, in order to achieve the Thematic Priorities set, one or more project initiatives proposed by the same Administrations and Bodies belonging to the CNAC are foreseen. The fifth of the six Thematic Priorities is represented by online counterfeiting. This includes lines of activity aimed at countering the risk to consumer health and safety associated with the purchase and use of non-authentic products purchased online.

The diffusion of technological innovations, the increase in services offered by Internet Service Providers (ISP) and the spread of e-commerce, are the main factors that, in addition to the propulsion functions of the legitimate trade aimed at a world-wide audience of consumers at limited cost, represent, at the same time, an element of growth and spread of counterfeit activity that impacts on all stages of the counterfeiting process trade chain, from product design to distribution and consumer final contact.

The potentially boundless breadth of the web and the ever-faster techniques of information diffusion, then, aggravate the extent of the problem and make the consequent definition of strategies to combat such illicit phenomena delicate and complex.

In addition to the removal of illicit content on online spaces provided by ISPs, the most commonly used online counterfeiting is the blackout of illegal sites: this is the blockade computerized access in Italy to illicit pages, informing users about the illegality of transactions, and of sites. This measure may be activated by means of seizure ordered by the judicial authority, or through an administrative measure ordered ex officio, at the request of the parties concerned, by the Antitrust Authority (AGCM)

¹⁴³ National Anti-Counterfeiting Council (CNAC): *National Strategic Plan 2017-2018*.
(<http://www.cnac.gov.it/attachments/article/147/Piano%20Strategico%20Nazionale.pdf>)

in the case of assets subject to IP rights and by the Communications Authority (AGCOM) in the case of copyright infringement.

In view of the scale of the criminal phenomenon, linked to illicit organisations of international dimension, and the variety of goods subject to counterfeiting, online counterfeiting actions must be included in a framework that includes a variety of contrast techniques that also takes into account the multiplicity of sales platforms used today (retail, marketplace, hosting, social networks, search engines, ...) ¹⁴⁴.

The following table will show the main Project Initiatives set in place to combat online counterfeiting.

Azione strategica	Iniziativa progettuale	Proponente
Contraffazione online	Carta Italia	Ministero dello Sviluppo Economico – DGLC – UIBM
	Attività di supporto alle PMI per favorire un approccio sicuro all'e-commerce	Ministero dello Sviluppo Economico – DGLC – UIBM
	Coinvolgimento dei sistemi di pagamento nel contrasto alla contraffazione online	Ministero dello Sviluppo Economico – DGLC – UIBM – Ministero dell'Economia e delle Finanze

Source: <http://www.cnac.gov.it/attachments/article/147/Piano%20Strategico%20Nazionale.pdf>

- Carta Italia:

a voluntary agreement between rightsholders and actors in online commerce on the more effective procedures to prevent and react to counterfeit offers on the internet. Promoted by the Ministry of Economic Development, the Netcomm Consortium and Indicam, this agreement aims to identify and implement measures enabling the identification of the offers relating to non-authentic products before they are put online, as well as to prevent the repeat this kind of offer. The signing of the Carta Italia took place in the context of the meeting of the National Anti-Counterfeiting Council

¹⁴⁴ National Anti-Counterfeiting Council (CNAC): *National Strategic Plan 2017-2018*. (<http://www.cnac.gov.it/attachments/article/147/Piano%20Strategico%20Nazionale.pdf>)

(CNAC) where were in fact illustrated the Guidelines on the prevention and fight against the phenomenon of the counterfeiting on the territory.

- Support activities for SMEs to promote a secure approach to e-commerce:

the Ministry of Economic Development and the Directorate General for the Fight against Counterfeiting have added a project for the implementation of accompanying activities and assistance to SMEs to facilitate a secure access to e-commerce channels and to promote the knowledge of IP protection tools online. The objective of the initiative is to encourage Small and Medium Enterprises to use the e-commerce channel for the sale of their products and to raise entrepreneurial skills on specific IP protection tools on the web.

- Involvement of payment systems in combating online counterfeiting:

an initiative proposed by the MISE - DGLC - UIBM in collaboration with the Ministry of Economy and Finance and shared by Confindustria, provides for the implementation of an analysis of the possible involvement of the banking system and financial intermediaries in policies to combat counterfeiting through the identification of possible actions and tools that reduce purchases of goods.

The main objective of the Plan is therefore the rationalization, strengthening and coordination of the activities provided for by the Government's anti-counterfeiting policies, in order to enhance any possible synergy between the actions implemented by the various Administrations and Bodies, widespread throughout the country¹⁴⁵.

¹⁴⁵ National Anti-Counterfeiting Council (CNAC): *National Strategic Plan 2017-2018*. (<http://www.cnac.gov.it/attachments/article/147/Piano%20Strategico%20Nazionale.pdf>)

CHAPTER 3

LUXURY INDUSTRY: DISTINCTIVE FEATURES

3.1. Luxury industry

3.1.1. Historical background

In order to better investigate the meaning of luxury we start from the very beginning, analysing the phenomenon from an etymological point of view: luxury comes from the Latin “*luxus*”, which means “abundance of vegetation”, metaphorically understood as “abundance of delicious things”.

Before being a trade or a market, as we know it today, luxury is a culture that has been part of humanity since its birth and that has evolved over time, always maintaining the distinction from what is necessary and useful. A good starting point to realize how deeply luxury has been linked to our origins since ancient times, is represented by an action that distinguishes us from animals: the burial of the dead.

In the tombs of kings, pharaohs, high priests and knights we find, besides skeletons, objects that with the passing of history become more and more refined: from the most precious jewels to symbols of power such as weapons.

Luxury was associated until the Middle Ages with the concept of splendour, but with the arrival of Christianity it became the symbol of lust, thus underlining its negative value. In the Renaissance things changed again: with the secularization of thought, luxury became functional to the strengthening of power, thanks to sovereigns like Louis XIV and began to be seen as a profane value (without any social or moral condemnation).

In the 17th century the changes were drastic, because luxury was combined with a lifestyle with a greater possibility of spending but rather sober and attentive to detail.

It was in the 19th century that the idea began to spread that luxury was something unnecessary, superfluous and additional to everyday life. Progressively then it was combined with everything that is expensive, refined and sumptuous to seek emotions and personal gratification, a means to define one's identity.

Italy became the home of luxury during the Renaissance, imposing styles, techniques, art and tastes all over Europe. At that time, Venice dictated fashion with its elegance (for example the invention of velvet) and together with other maritime republics traded with Asia as far as Mongolia. Florence was also central, the world stock exchange for Spanish and English wools, and Milan's agemine weapons that were famous almost everywhere. Sicily was also very important in that historical period by importing silk and cotton, which was then quite rare¹⁴⁶.

3.1.2. Luxury products: main characteristics

Luxury good products are defined as products whose demand increases more than proportionally to the increase in income, unlike what generally happens in other markets. In other words, they have a high elasticity of demand to income: an increase in high income earners increases the consumption of high-end goods.

The definitions of “luxury” proposed by sociologists, corporatists, and consulting firms on the basis of market research and sector studies, focus instead on the elements of the marketing mix developed specifically for this category of goods.

Luxury good products are presented as products capable of attributing prestige status to those who manage to enjoy them. They are distinguished by their excellent quality, high price, highly exclusive character and the emotional and involvement component that accompanies the act of purchase and possession of the good.

¹⁴⁶ <http://quiima.com/il-lusso-tra-storia-antica-e-made-in-italy/>

Dubois, Laurent and Czellar define luxury products as the goods they offer the following features:

- excellent quality: it derives from the exclusivity of the raw materials used (e.g. diamonds) and the care of the manufacturing processes (e.g. restaurant). The quality is reliability and durability, transmits confidence to the consumer and a sense of “eternity” given by the absence of defects;
- aesthetic relevance: the consumption of a luxury product constitutes a hedonistic experience and sensual involving taste, sight, touch, hearing, smell. The luxury goods are designated as “art works”, not only in reference to the product in the strict sense but to the whole context in which they are sold out;
- high price: the price can be defined as high in absolute terms or in terms of relation to products performing the same function. It is legitimate by the high perceived quality and the idea of longevity connected to it and generates a feeling of comfort and security in the consumer's purchase;
- uniqueness/rarity: this is a crucial feature for the luxury industry and concerns both the supply and the demand side. Luxury goods “must be earned”, the more inaccessible they are, the greater the desire they arouse. Rarity is closely linked to the two previous characteristics, in fact, given the uniqueness of the raw materials used, the specific skills used in the production process and the high prices, it is not surprising that these products are not in line with mass production and consumption.

This scarcity is also reflected in the distribution sector. In contrast to mass stores, which contain a wide range of products of the most varied quality levels, the luxury shop must offer a limited range of highly selected products, as well as pay some attention to the design of the entire context in which the purchase takes place.

While, from the point of view of demand, not everyone can afford such products;

- superfluous character: the product does not respond to primary needs, its value

does not derive from the functional component, but from the satisfaction of other benefits. This superfluity can also be linked to the concept of abundance: for functional reasons it may be necessary to purchase a unit of a certain product or even a reasonable number of units, we speak of luxury when the number of products purchased far exceeds the amount necessary to meet functional needs;

- traditionalism: the link with the past is fundamental. In the mind of the consumer the products and services to be defined as luxury must have a history, far from passing fads, as well as their production process and sales must respect tradition¹⁴⁷.

3.2. Consumers behaviour in respect to the luxury goods

In the second half of the 19th century a German statistician, Ernst Engel, analysing household consumption expenditure in relation to income, observed that the poorer a household is, the greater the share of income allocated to the purchase of basic necessities, particularly food.

The growth in household income does not, however, lead to a growth corresponding expenditure on food: Engel observed that, in such circumstances, consumers do not increase their expenditure on basic necessities proportionally, but rather their consumer choices migrate to superior or luxury goods (Engel's law).

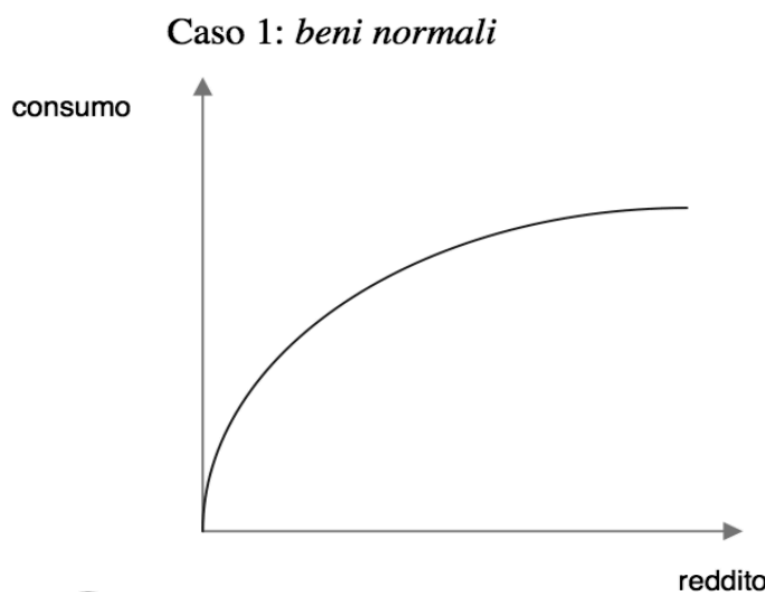
Spending on basic necessities, such as bread or milk, does not increase in the same proportion as income growth: above a certain threshold, if a household sees its income double or triple, it is unlikely to double or even triple its consumption of these goods. Above a certain level of income, then, demand for these goods stabilises, because consumers no longer have an interest in increasing their consumption.

¹⁴⁷ Myriam Spallino, Filippa Bellante, Giovanni Lupo: *Le peculiarità del mercato del lusso*. (2014) (<https://iris.unipa.it/retrieve/handle/10447/104778/144224/Le%20peculiarit%c3%a0%20del%20mercato%20del%20lusso%20.pdf>)

Changes in income lead to diversification not only in the level but also in the composition of shopping.

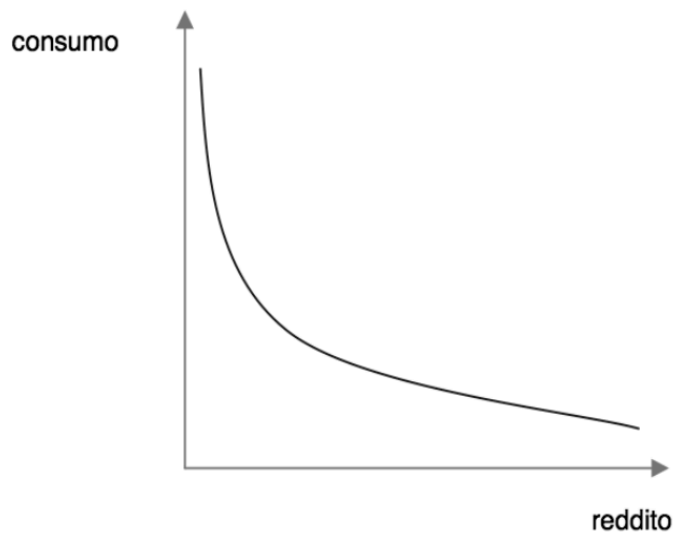
When income increases, the demand for certain goods, that economists define as inferior goods, can even decrease. This happens because families, having more economic resources, stop consuming these goods by preferring to them goods of higher quality.

Finally, it should be remembered that, since the availability of greater economic resources pushes consumers to orient their choices towards superior or luxury goods, it can be assumed that, once a certain income threshold is exceeded, the increase in demand for these goods is more than proportional to the increase in income. The graphs below illustrate the three cases abovementioned.



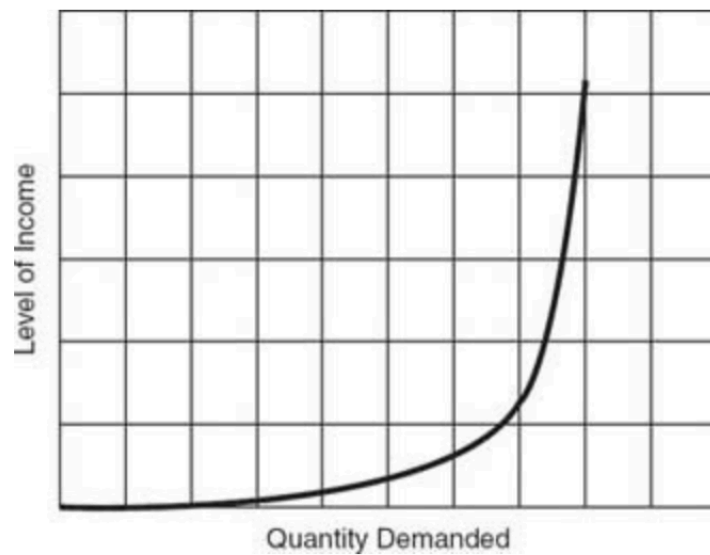
This graph shows the trend in the consumption of normal goods compared to income: when income increases, consumption first increases and then tends to stabilize.

Caso 2: *beni inferiori*



This graph shows the trend in the consumption of inferior goods compared to income: when income increases, consumption tends to decrease.

Caso 3: Luxury goods



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¹⁴⁸ <http://sk.sagepub.com/reference/consumerculture/n202.xml>

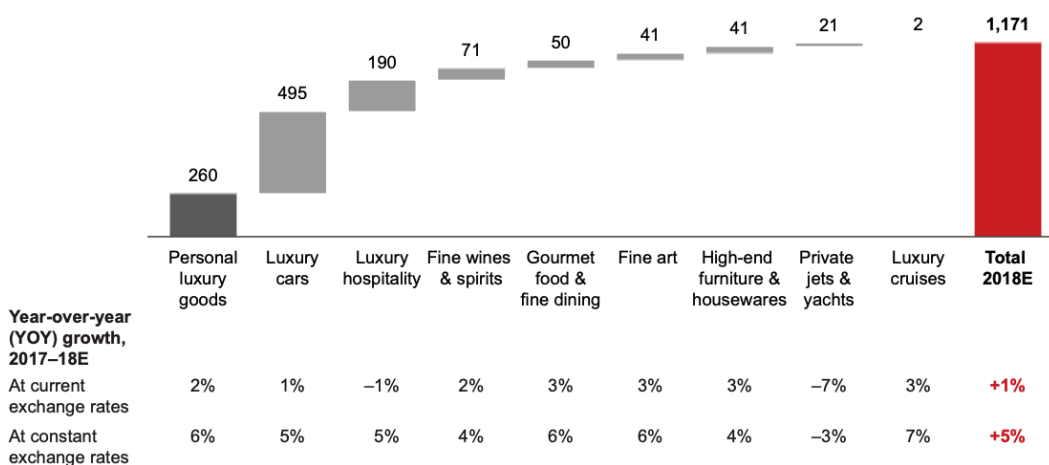
This graph shows the trend in the consumption of luxury goods compared to income: when income increases, consumption tends to rise more than proportionally¹⁴⁹.

3.2.1. Luxury goods market worldwide

The luxury industry as tracked by Bain encompasses both luxury goods and experiences. It comprises nine segments, led by luxury cars, luxury hospitality and personal luxury goods, which together account for more than 80% of the total market. Overall, as it is shown in the graph below the luxury market grew 5% in 2018, to an estimated €1.2 trillion globally, with positive performance across most segments.

Figure 1: The global luxury market grew to nearly €1.2 trillion in 2018, up 5% from 2017

Worldwide luxury market, 2018E
(€ billions)



Note: Figures for 2018 are estimated, based on data from January to September
Source: Bain & Company

The market for personal luxury goods reached a record high of €260 billion, representing 6% growth (2% at current exchange rates). Worldwide, the personal luxury goods market experienced growth across most regions, driven primarily by

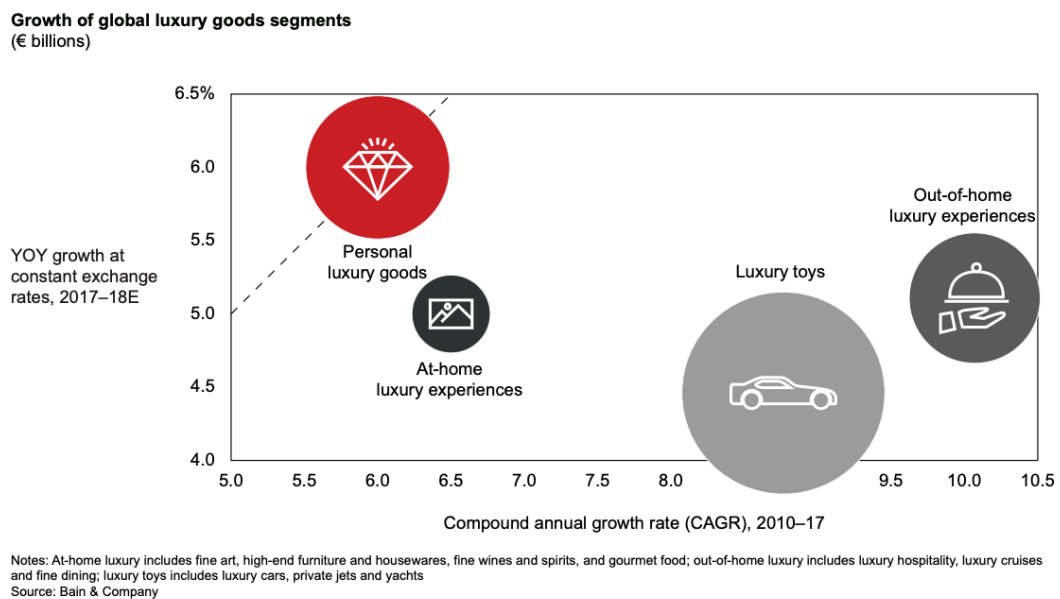
¹⁴⁹ Myriam Spallino, Filippa Bellante, Giovanni Lupo: *Le peculiarità del mercato del lusso*. (2014) (<https://iris.unipa.it/retrieve/handle/10447/104778/144224/Le%20peculiarit%c3%a0%20del%20mercato%20del%20lusso%20.pdf>)

more robust local consumption (up 4% globally at current exchange rates). Growth is expected to continue at annual rate of 3% to 5% through 2025, with the market for personal luxury goods reaching €320 billion to €365 billion.

Overall, shoes and jewellery were the top luxury growth categories, gaining 7% each, followed by handbags and beauty¹⁵⁰.

That is clearly exemplified in the figure below.

Figure 2: The personal luxury goods segment outperformed other luxury segments in 2018



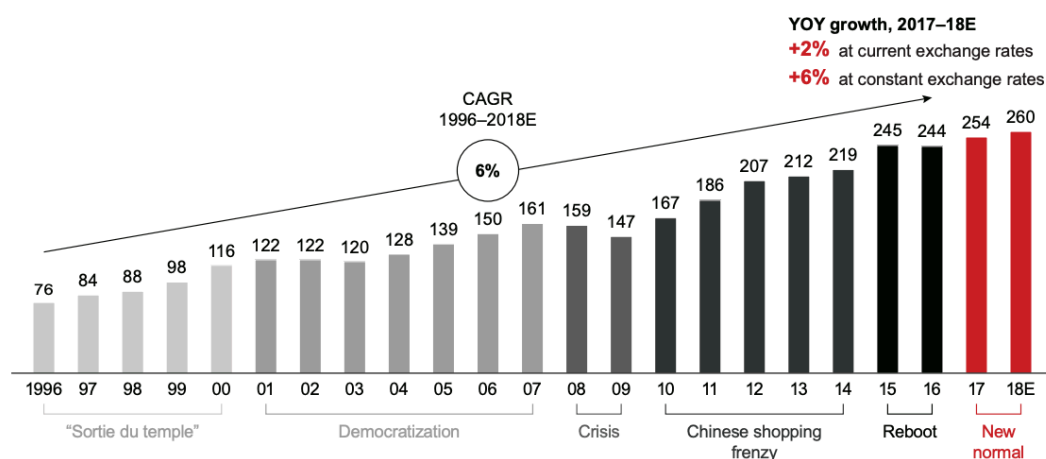
In a purely business-like approach, in the literature, valuations based on price/earnings ratios in the luxury goods sector vary considerably depending on the product category and the geographical distribution of sales. It is noted that the value of the luxury goods market from 1995 to 2016 has continued to grow, increasing the market value of the sector, bringing to light the statement known as “the luxury goods market knows no crisis”. This statement is not totally sharable, but it can be partly so, in fact, with a slowdown followed by a flattening of market demand in the

¹⁵⁰ Claudia D’Arpizio, Federica Levato, Filippo Prete, Elisa Del Fabbro, Joëlle de Montgolfier, Bain & Company: *Luxury goods worldwide market study, fall-winter 2018*. (2019) (https://www.bain.com/contentassets/8df501b9f8d6442eba00040246c6b4f9/bain_digest_luxury_goods_worldwide_market_study_fall_winter_2018.pdf)

three-year period 2013-2016, consistent with the crisis to underline how the monetary restriction of incomes, in some way, affects even the wealthiest categories. The graph below roughly illustrates the market trend during the abovementioned reference period.

Figure 3: After a pause in 2016, the personal luxury goods market returned to a “new normal” of moderate growth

Global personal luxury goods market
(€ billions)

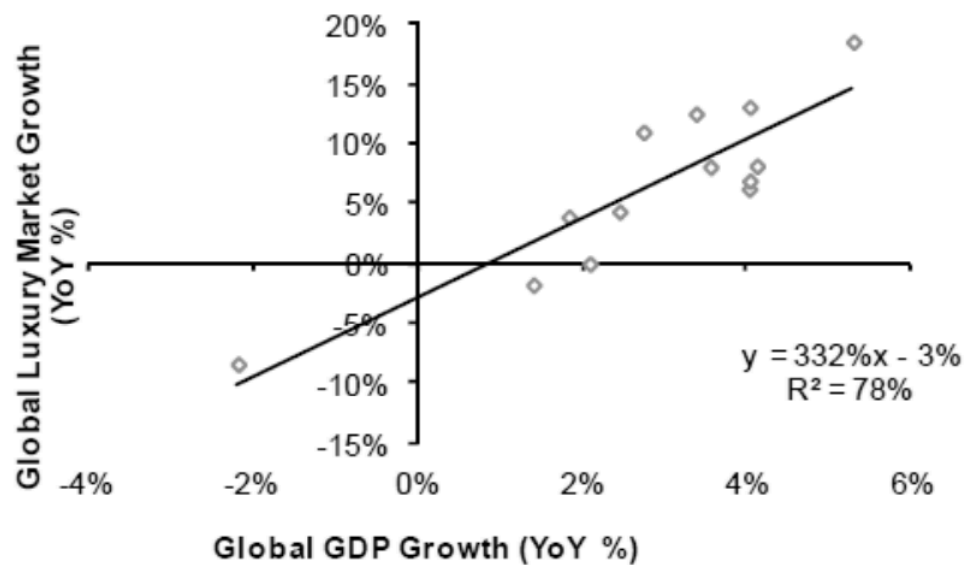


Source: Bain & Company

The literature shows, in sources including Bernstein Research, Altagamma, PwC, Bain & Company, how the growth of the luxury market is closely related to the growth of the GDP (Gross Domestic Product).

In addition to increases in national income, not only is there a direct connection with the growth of the luxury market, given by the rise in the level of wealth of the population, which is reflected in a higher income to be allocated to this type of purchases, but also a sort of indirect link, demonstrating how there is a correlation positive between GDP growth and consumer purchases of luxury goods. (i.e. number of vacation trips).

Hence, the luxury market is overperforming the GDP growth by an average factor of 2x.



Source: Bernstein Research

3.2.2. Luxury goods market in Europe

In addition to the United States, Europe is home to some of the most mature markets for luxury goods across the world. Despite increasing competition from the Asia Pacific, Middle East and African regions, the size of this industry has continued grow in recent years. In Western Europe, the market reached a value of 248 billion euros in 2018 and is estimated to have increased by a further 30 billion euros in 2020. In Eastern Europe, the luxury market has also seen consistent growth in past years, although being worth considerably less than in Western Europe, at 33 billion euros. Across Europe, the leading cities for luxury retail are Paris, London and Milan, all of which were responsible for around five percent of global luxury stores opening in 2017.

Based on worldwide sales, the top three luxury goods companies in Europe are LVMH Moët Hennessy Louis Vuitton SE (France), Compagnie Financière Richemont SA (Switzerland) and Kering SA (France). LVHM is responsible for many of the most well-known luxury brands across a range of product categories, including Luis Vuitton, Christian Dior, Givenchy, Marc Jacobs and Moët & Chandon. As such, the company's sales clearly exceed Richemont and Kering, reaching 46 billion euros in

2018, around 8.7 billion euros of which was made in Europe. In comparison, sales of the Richemont Group amounted to around 13.9 billion in the 2019 financial year, with just over a quarter of this generated in Europe. Meanwhile, Luxottica produced sales of approximately nine billion in 2018, with Europe accounting for a share of 21 percent.

Studies on luxury purchasing behaviour in France and the United Kingdom (UK) have shown that a large proportion of consumers still prefer to purchase their luxury items in-store, rather than online. According to French consumers, being able to see and touch the product, avoiding the risk of counterfeits and the lack of contact with vendors online are some of the main reasons why this is the case. Across Europe, there is also a growing trend for customizing luxury items which is most popular in Italy, France and Russia, with 23 percent of consumers interested, compared to 15 percent in Germany and 13 percent in the UK¹⁵¹.

In 2018, the estimated value of the luxury goods market in Europe was at approximately 84 billion euros.

Luxury goods manufacturers meet consumer demand by focusing on brand, design, materials and craftsmanship to transform everyday objects into status symbols. In this sense, Italian companies designing and producing luxury goods are leaders on a global scale. In fact, the most famous Italian brands generate the vast majority of their revenues abroad and are well established in the leading markets for personal luxury goods worldwide.

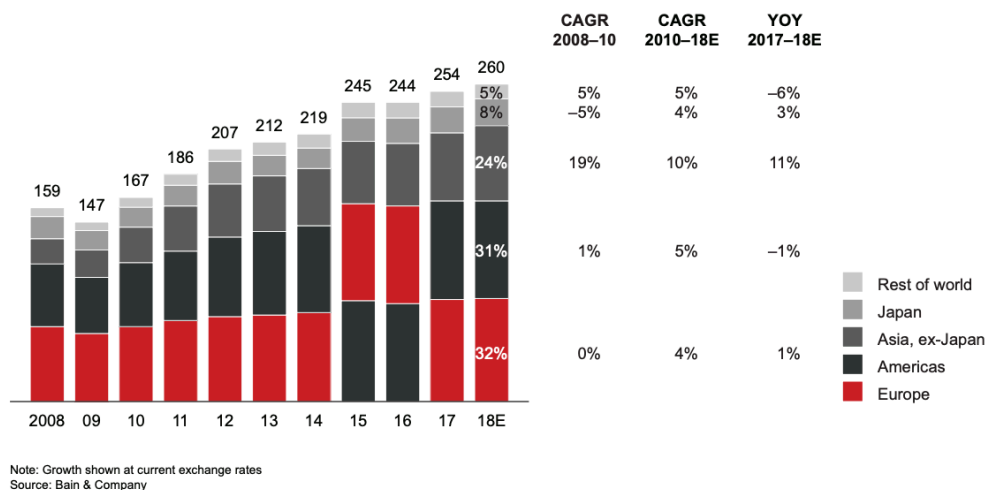
New markets and segments are giving the industry growth points and developing countries are becoming increasingly important for luxury companies that want to expand their business and increase their revenue. However, Europe is still the leading market for personal luxury goods (as it is shown in the figure below), probably also due to the fact that many overseas tourists enjoy visiting the Old Continent for a shopping spree. Indeed, a report on the luxury goods market published by Bain &

¹⁵¹ Statista, Tugba Sabanoglu: *Luxury goods in Europe – Statistics and Facts*. (13 August 2019)

Company estimated that in 2018, 33 percent of luxury goods consumers were Chinese¹⁵².

Figure 4: Europe remained the top region for luxury sales

Share of global personal luxury goods market, by region
(€ billions)



3.2.3. Distribution trends

The retail channel grew 4% in 2018, with three-quarters of that increase coming from same-store sales growth. The wholesale channel grew only 1%, hampered by department store performance and a slowdown among specialty stores facing tough competition from the online channel.

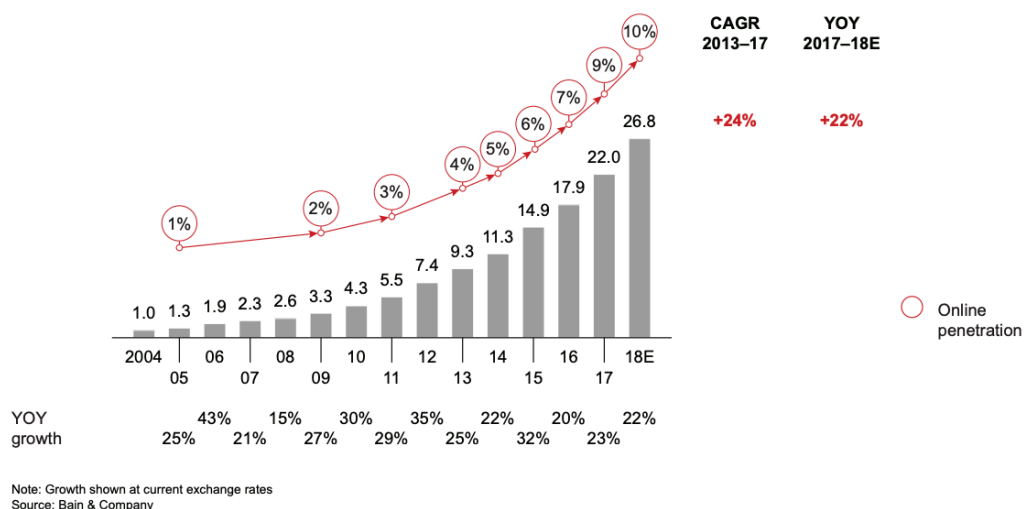
Online luxury shopping continued to accelerate in 2018, growing 22% to nearly €27 billion; it now represents 10% of all luxury sales. The Americas market made up 44% of online sales, but Asia is emerging as a new growth engine for luxury online, slightly ahead of Europe. Accessories remained the top category sold online, ahead of apparel while the beauty and “hard luxury” (jewellery and watches) categories

¹⁵² Statista Research Department: *Italy: leading fashion companies 2017, by turnover*. (12 November 2017)

were both on the rise. The biggest online channels for luxury sales were e-tailers (39%), brands' own websites (31%) and retailers' websites (30%). The figure below illustrates how the online shopping is increasing also for the luxury goods.

Figure 10: Online luxury posted another year of double-digit growth, reaching 10% of the total market

Global online personal luxury goods market
(€ billions)



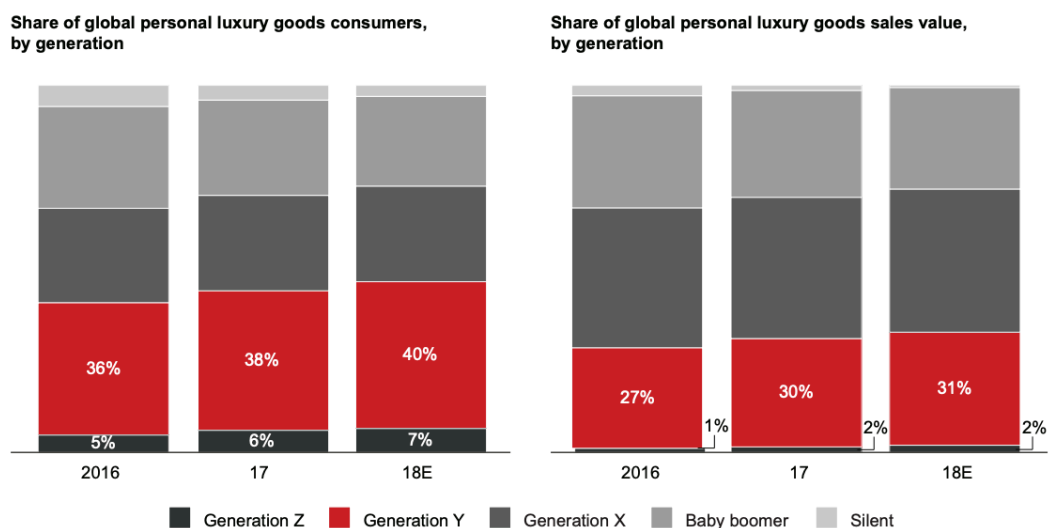
Meanwhile, the second-hand market for luxury goods rose to €22 billion in 2018, propelled by strong growth in Europe, which makes up more than half of this market, as well as by growth among highly specialized online platform.

Moreover, luxury brands can no longer deny the influence of younger consumers. Generations Y and Z accounted for 47% of luxury consumers in 2018 and for 33% of luxury purchases. However, they contributed virtually all of the market's growth, compared with 85% in 2017. In response, the luxury market is adapting to the preferences of younger consumers, evolving and innovating in terms of product offerings, communication and engagement strategies, and distribution channels. Generation Z, despite being a smaller portion of the market (2% in 2018), is already demonstrating highly differentiated preferences from previous generations.

The luxury industry is also increasingly acknowledging cultural and size preferences. Modest fashion, including garments specifically designed for Muslim

consumers and other types of less-revealing designs accounted for approximately 40% of luxury women's ready-to-wear in 2018. "Inclusive" fashion, targeted to curvy or plus-size consumers, represented about 20% of luxury women's ready-to-wear, with brands producing more one-size garments, larger sizes and clothing with looser, more accommodating fits¹⁵³.

Figure 15: Generations Y and Z represented 47% of global personal luxury goods consumers in 2018, accounting for one-third of sales



Note: Growth shown at current exchange rates
Source: Bain & Company

Younger generations will be the primary engine of growth in the coming years. Generations Y and Z will represent approximately 55% of the 2025 luxury market and will contribute 130% of market growth between now and then, offsetting a decline in spending by older consumers.

By 2025, the online channel will represent 25% of the market's value, up from 10% today. Approximately half of all luxury purchases will be digitally enabled as a result of new technologies along the value chain, such as virtual reality and mobile payments, and nearly all luxury purchases will be influenced by online interactions.

¹⁵³ Claudia D'Arpizio, Federica Levato, Filippo Prete, Elisa Del Fabbro, Joëlle de Montgolfier, Bain & Company: *Luxury goods worldwide market study, fall-winter 2018*. (2019) (https://www.bain.com/contentassets/8df501b9f8d6442eba00040246c6b4f9/bain_digest_luxury_goods_worldwide_market_study_fall_winter_2018.pdf)

3.3. Luxury brands fighting counterfeiting

For years, the luxury industry has waged a battle against counterfeiters. It has invested heavily in ultra-sophisticated tech solutions which use the latest advances in nanotechnology, internet of things (IoT), and AI to authenticate products. It has lobbied governments to extend enforcement bodies' powers to seize and destroy fake goods, to prosecute buyers and dealers, and to block access to websites that sell counterfeit goods. And then there are the lawyers: LVMH alone employs at least 60 lawyers and spends \$17 million annually on anti-counterfeiting legal action.

Despite these efforts and enforcement measures, counterfeiting still growing. The total trade in fakes is estimated at around \$4.5 trillion, and fake luxury merchandise accounts for 60% to 70% of that amount, ahead of pharmaceuticals and entertainment products and representing perhaps a quarter of the estimated \$1.2 trillion total trade in luxury goods.

Digital plays a big role in this and perhaps 40% of the sales in luxury fakes take place online, as today's counterfeiters exploit the ubiquity and anonymity of the internet space to the limit. For every e-commerce platform like Alibaba that cracks down on fakes, a new one emerges that allows goods to be shipped directly from manufacturers.

The luxury firms' failure to contain the growth in counterfeiting is rooted in a hollowing out of their brands. Many luxury brands have become symbols of status and privilege but not much else. The emphasis across the industry has been on signalling rather than delivering luxury; intangible over tangible product attributes; and the logo over all other markers of quality.

This philosophy has been consistently applied to supply chains, manufacturing, and pricing: By relocating production to low-cost countries, luxury firms severed the centuries-old association of luxury goods with their historical places of origin. The outsourcing also led to relaxed control over supply chain, design, and manufacturing just as counterfeiters were putting unprecedented pressure on each of these processes.

At the same time, in spite of the cost savings, luxury products' sticker prices have risen dramatically. At first, the idea was to cushion the impact of the growing traffic of Chinese tourists buying abroad and reselling at home. But the hikes escalated rapidly and by 2014, a Chanel handbag cost 70% more than it had just five years earlier. Other brands followed suit, raising prices at more than twice the rate of the mainstream market. Buoyed by initial success of this pricing strategy, many firms also phased out their more affordable, entry-level brands. Case in point: Dolce & Gabbana in 2012 discontinued its profitable but less expensive D&G brand.

As a result of these developments, luxury brands have become disconnected from their physical products, which reduces customer concerns about buying fakes. Does spending \$2,500 on a branded good made in China look smart when you can get a made-in-China fake version (possibly from the branded company's supplier) that looks pretty much the same? Moreover, the anonymity of the new digital distribution networks for fakes only makes the decision easier.

For this reason, luxury companies must try to invest in themselves and keep up with the time.

For example, many luxury goods companies should reboot their assumptions about customers, because their customers are evolving. Increasingly the new rich of today are Millennials, and their ethics and tastes are rather different from those of their parents. There is shift in emphasis to experience, sustainability, and sharing from products, consumption, and exclusivity.

Some luxury brands are changing their strategies accordingly. Kering, the group owner of Gucci, Balenciaga, and Yves Saint Laurent, has been steadily raising the proportion of renewable raw materials in its products, from biodegradable glitter to fabrics made from seaweed and orange fibres. Its eyewear division, for example, has partnered with an Italian bioplastics firm to create a range of biodegradable frames. The group has also introduced "environmental P&L" into its business model, signaling an industry-wide shift in practice. The response from consumers has been favourable: Yves Saint Laurent, for example, now does 65% of their business with Millennials.

Another important aspect is the post-sale services such as alterations, maintenance and repair, as well as the booming trade in “pre-owned” luxury items. An early pioneer in this respect is Audemars Piguet, which in 2018 announced plans to launch a second-hand watch business. If executed properly, this kind of strategic move can help a luxury firm take control over its products throughout their lifecycles. It can also change the economics of buying a fake by offering consumers more affordable but still genuine options¹⁵⁴.

3.4. Christian Dior vs Copad: case study

The owner of a trademark in an infringement action may oppose the resale of its prestige goods by sellers of sale items to which the goods in question have been assigned by the trademark licensee.

This important principle was set out by the Court of Justice EC in the Copad judgment (judgment of 23 April 2009, case C-59/08, Copad vs Christian Dior and Société industrielle lingerie, SIL) given in a preliminary ruling under Article 234 EC. The subject of the question raised by the French Court of Cassation concerned the interpretation of Article 7, and in particular Article 8.2, of the Trademarks Directive. The latter provides that “the proprietor of a trade mark may invoke the rights conferred by that mark against a licensee who contravenes a provision of the licence agreement as regards its duration, the form covered by the registration in which the trade mark may be used, the nature of the goods or services for which the licence is granted, the territory in which the trade mark may be affixed, or the quality of the goods manufactured or services provided by the licensee”. This rule has been implemented in our legal system in art. 2, paragraph 3 of the Intellectual Property Code.

¹⁵⁴ Roberto Fontana, Stephane J.G. Girod, Martin Kralik: *How luxury brand can beat counterfeiters*. Harvard Business Review (24 May 2019) (<https://hbr.org/2019/05/how-luxury-brands-can-beat-counterfeiters>)

The case:

In May 2000, Dior and SIL concluded a trademark licensing agreement for the manufacture and distribution of prestigious corsetry products bearing the Christian Dior trademark. The parties had included in that contract a clause stating that 'in order to maintain the reputation and prestige of the brand, the licensee undertakes not to sell to wholesalers, local authorities, retailers of discount items, mail order companies or those operating the door-to-door or home sales system, unless the licensor has given his prior written consent, and to take appropriate measures to ensure compliance with that provision, including by its distributors or retailers'. Being in a situation of economic difficulties, SIL, as provided for in the contract, had requested from Dior the authorisation to sell the recent Christian Dior brand products also to buyers who were not part of the selective distribution network. Despite the refusal of the trademark proprietor, SIL nevertheless proceeded, in breach of its obligations under the licence agreement, to sell the goods bearing the trademark in question to Copad, a reseller of goods on sale. Dior then awarded SIL and Copad before the competent French court, the Tribunal de Grande Instance de Bobigny, for infringement of the trademark. As seen above, the French Court of Cassation, before which the case had in the meantime come, requested the intervention of the Community Courts in order to determine whether Dior can bring infringement proceedings against the licensee and his successor in title under Articles 7 and 8.2.

The sentence:

The legal question addressed by the Community Courts concerns the means of protection available to the proprietor of a trade mark, as the proprietor of a trade mark for goods of prestige, in the event that the licensee fails to fulfil his obligations under the licence agreement in relation to the marketing of the goods bearing that mark. The question is whether, in addition to protection for breach of contract, the proprietor can rely on protection for infringement of the trademark, invoking Article 8.2 of the Trade Marks Directive to that end.

In order to be able to claim that the owner of a trade mark who has concluded a trade mark licence agreement has access to the protection provided for in Article 8.2 of the

Trade Marks Directive, it is necessary to resolve the preliminary question whether the proprietor's right to the trade mark has been exhausted by the licence agreement.

According to the well-established orientation of the Community Courts, under Article 7 of the Trademarks Directive the marketing of goods bearing the trademark by the licensee is equivalent to the marketing of those goods with the consent of the proprietor. It follows from this that the proprietor's right to the trademark is exhausted even when the goods bearing the trademark are put on the market by the licensee. However, as the Court points out, the licence agreement does not amount to the absolute and unconditional consensus of the owner of the trademark. The latter, therefore, in case of infringement of the licence agreement, can still assert the rights to the trademark in the comparison of the licensee. Article 8.2 falls within these cases.

Once the preliminary question has been answered, the courts then proceed to ascertain whether the applicant can avail itself of the protection afforded by Article 8.2 of the Trademarks Directive, of which, it can already be anticipated, they give it an extensive and decidedly favourable reading. As is clear from the settled case-law of the Community Courts, “the mark must constitute a guarantee that all the goods or services bearing the mark have been manufactured or supplied under the control of a single undertaking to which responsibility for their quality can be attributed”. Now, the quality of prestige goods, such as those marketed under the Christian Dior mark, “is not only the result of their material characteristics, but also of the style and image of prestige which gives them an aura of luxury”. The Court continues, 'since prestige products are exclusive articles, the aura of luxury surrounding them is an essential element for consumers to distinguish them from other similar products'. It follows that 'damage to such an aura of luxury may compromise the very quality of those products'. It must therefore be established whether the licensee has caused such damage by selling prestige products to resellers of clearance items not belonging to the selective distribution network. The marketing of prestige products through an appropriate selective distribution network is a suitable way of presenting them. The Court therefore does not rule out the possibility that the sale by the licensee to third parties not belonging to the network might adversely affect the quality of the prestige products, and that task falls to the national court on the basis of the criteria laid down by the Community courts, which include: “the nature of the prestige goods covered by the

trade mark, the volume and the systematic or occasional nature of sales of those goods by the licensee to resellers of clearance items not forming part of the selective distribution network and, on the other hand, the nature of the goods habitually marketed by those resellers and the forms of normal marketing in the sector in which they carry on their activity”.

Conclusions:

The sale by a licensee of prestige products in violation of the licensing contract to third party operators of sales of clearance items and not part of the selective distribution network of the trademark owner therefore constitutes an infringement of the trademark, as well as a breach of contract. Thus, the Community Courts strengthen the position of proprietors of trademarks affixed to prestigious goods, and consequently also the protection of the unbreachability of the selective distribution network. In the event of the sale of products bearing the trade mark to third parties outside the selective distribution network, the right holder may react against the unfaithful licensee or on the basis of the general rules on infringement of contractual obligations; that is to say, he may bring an action for infringement of the trade mark. This is no small matter, given the effective means of protection applicable in the event of infringement. The owner, following the acceptance of the application for infringement, will be able to obtain, among other things, a definitive injunction against the use of the trademark by the infringer, an order to withdraw the counterfeit products from the market. It Moreover, these profits may be greater than the damages suffered by the trademark owner as a result of the counterfeiting¹⁵⁵.

¹⁵⁵ Corte di Giustizia CE, Judgment of 23 April 2009: *Christian Dior / Copad: diritti del titolare di un marchio apposto su prodotti di prestigio*. (2009)
(<https://www.filodiritto.com/christian-dior-copad-diritti-del-titolare-di-un-marchio-apposto-su-prodotti-di-prestigio>)

CHAPTER 4

CASE STUDY: SUPREME VS SUPREME ITALY

4.1. The new concept of “*legal fake*”

It has been called “legal fake” a practice that has been recently established in the fashion industry.

This term is intended to define the practice of persons who precedes the owner of an original trademark in the filing of the same, in a territory where the latter is not yet registered. Based on the exploitation of the trademark thus obtained, the person involved carries out his business activity (from the production to the distribution of the garments distinguished by the trademark in this case) acting as the legitimate owner of the original trademark (or licensee of the same), thus imposing himself in the eyes of consumers and also suppliers and retailers often unaware.

This practice implicates an appropriation which is often not only limited to the brand, but also to a number of additional elements that characterize the style of the products, the brand image and the marketing strategies adopted by those who created the original brand¹⁵⁶. This is a practice in which you anticipate a company that is succeeding in certain countries, registering a trademark equal to yours in a market where it has not yet been registered¹⁵⁷.

This is a multifaceted phenomenon, which for many people would not be part of the proper counterfeiting, as it does not involve the mere reproduction of original products, but the creation of a real business parallel to that of the owner of the original trademark,

¹⁵⁶ Alessandro Balduzzi: *Supreme and legal fake – On the latest “trends” in local streetwear*. Bugnion News N. 31 (16 November 2018)

(<https://www.bugnion.eu/it/supreme-e-legal-fake/>)

¹⁵⁷ <https://ufficiomarchibrevetti.it/2019/02/legal-fake-marchi-falsi-registrati-legalmente/>

taking advantage of the fact that the latter is often known only to a small community of passionate people¹⁵⁸.

4.2. The Supreme Case

4.2.1. Supreme as a brand



The term “legal fake” has often been widely used to describe what happened in Italy at Chapter 4 Corp. D.B.A. Supreme, a United States company that owns the famous trademark Supreme.

It is a streetwear brand created by James Jebbia, who, since the first store opened in Manhattan, Lafayette Street, in 1994, has subsequently become a symbol of the skateboarding counterculture of those years. More recently, the Supreme brand has also become particularly popular following a collection created with Louis Vuitton, so that the company owning the brand is now valued at one billion dollars¹⁵⁹.

Supreme has worked with some of our generation's most ground-breaking designers, artists, photographers and musicians - all who have helped continue to define its

¹⁵⁸ Alessandro Balduzzi: *Supreme and legal fake – On the latest “trends” in local streetwear*. Bugnion News N. 31 (16 November 2018)

(<https://www.bugnion.eu/it/supreme-e-legal-fake/>)

¹⁵⁹ <https://www.bugnion.eu/it/supreme-e-legal-fake/>

unique identity and attitude. Supreme is the definition of Streetwear and in many ways is the force that continues to bless the streetwear world and carry it into the next generation¹⁶⁰.

This success is certainly due to the creative choices made over the course of recent decades, which have led a brand chosen by its founder in a way that seems not even considered too well thought-out to become, at times quite unexpectedly, a reference point for global fashion trends, but which have at the same time exposed it, in such a changed context, to a series of threats that risked significantly undermining it.

4.2.2. Supreme case study

In Italy, the Supreme trademark was at the centre of a precautionary proceeding instituted before the Court of Milan by the United States company that owns it against the Italian company Trade Direct S.R.L., licensee of the San Marino trademark Supreme of 18 November 2015 and the identical Italian trademark filed on the same date, both registered by International Brand Firm Ltd. (a company with registered office in the United Kingdom).

In the proceedings in evidence, the United States company claimed that the Italian company's marketing of Supreme branded clothing, which was also carried out through the domain name supremeitalia.com, was unlawful and that the style and graphics adopted by the original brand had been reproduced, both in the clothing and on the website.

Sold as an authorized retailer of Supreme New York on the Italian territory and leveraging on the current disinformation in Italy regarding the American brand, Supreme Italia begins its upward spiral. Taking advantage of the mediatic success and the reputational capital so heavily constructed by Supreme New York during its thirty

¹⁶⁰ <https://www.streetwearofficial.com/collections/supreme>

years of activity, Supreme Italia is bought by naïves fans and streetwear novices, but also by retailers and shops, convinced to be buying the original brand¹⁶¹.

Supreme Italia has copied all the distinctive features of the original brand: from advertising material to the famous logo. Supreme Italia rose to the occasion of the lack of a registered Supreme trademark, has misappropriated it. For this reason, as a result of countless notifications, the Milan Court ultimately confirms the existence of counterfeiting and unfair parasitic competition, “diversion of customers, watering down of the brand and impairment of the commercial image to the detriment of the United States brand, aggravated by an apparent expansion of illegal activities”¹⁶².

For unfair “*parasitic competition*” is meant the phenomenon whereby the imitator, in the wake of a competitor success, continually and systematically copies the products of the latter, take advantage of creative and organizational efforts and investment of advertising nature in a “*parasitic*” manner, that is to say, without incurring any costs. This is a practice contrary to the rules of professional fairness between entrepreneurs and therefore sanctioned under Article 2598 of the Italian Civil Code¹⁶³. In fact, the parasitic attachment to the image of the renowned imitated trademark induces the public to operate an unconscious psychological connection between the two marks, allowing the counterfeiter to unduly acquire a specific area on the market that otherwise would not be able to occupy.

As a consequence, the Milan Court has upheld Supreme’s application for interim measures and ordered the Italian competitor (Trade Direct S.R.L) to immediately cease

¹⁶¹ NSS Magazine: *Supreme Italia - The case of “parasitic competition”*. (17 June 2017) (<https://www.nssmag.com/en/fashion/11794/supreme-italia-condannato-per-concorrenza-parassitaria>)

¹⁶² <https://www.nssmag.com/it/fashion/13593/supreme-italia-il-tribunale-di-milano-chiude-la-controversia-legale-in-favore-a-supreme-ny>

¹⁶³ ¹⁶³ As stated in the Art. 2598 of the Italian Civil Code (Acts of unfair competition).

Without prejudice to the provisions concerning the protection of distinctive signs and patent rights, any person shall commit acts of unfair competition:

- 1) uses names or distinctive signs capable of producing confusion with the names or distinctive signs legitimately used by others, or servilely imitates the products of a competitor, or performs by any other means acts capable of creating confusion with the products and with the activity of a competitor;
- 2) spreads news and appreciations about a competitor's products and activity, which may bring it into disrepute, or appropriates the merits of a competitor's products or business;
- 3) it directly or indirectly uses any other means that does not comply with the principles of professional fairness and is liable to damage the other company.

(<https://www.ricercagiuridica.com/codici/vis.php?num=11245&search=>)

production, export, and marketing of clothing or any other product unlawfully bearing the Supreme trademark.

In accordance with the order, Supreme Italia must withdraw from the market all catalogues, all promotional materials and all products with the Supreme trademark. So, it will have to make sure that "fake" products are not offered for sale in the entire Italian territory. With the order of 20 April 2017, the Milan Tribunal also ordered Supreme Italia to cease using the domain name supremeitalia.com, which was unlawfully registered on its behalf¹⁶⁴.

This decision was also confirmed in the order issued following the subsequent complaint filed by Trade Direct (Court of Milan, order of 20 April 2017), in which significant prominence was also given to the United States company's ownership of an Italian trademark prior to the one Trade Direct had alleged to be licensee.

In this last regard, the Board of Arbitrators has pointed out that, in arguing its own defence, Trade Direct was not able to attach (and even less to demonstrate) its own possible pre-use of the Supreme trademark, a circumstance which could have played a crucial role in the assessment of the case¹⁶⁵.

This precautionary procedure (which allowed the judges to provide a series of important indications, in point of law, on the unlawfulness profiles of the particular conduct implemented by Trade Direct, in one of the first cases that dealt with such a phenomenon) thus ended favourably for the United States company, but nevertheless highlighted a series of critical issues, partly inherent to the Supreme brand itself and partly due to the lack of strategy and vigilance adopted for its protection.

In fact, in the precautionary proceedings before the Court of Milan, it was fundamental that Chapter 4 had registered its trademark in Italy before those for which Trade Direct results as licensee.

¹⁶⁴ NSS Magazine: *Supreme Italia - The case of "parasitic competition"*. (17 June 2017) (<https://www.nssmag.com/en/fashion/11794/supreme-italia-condannato-per-concorrenza-parassitaria>)

¹⁶⁵ Alessandro Balduzzi: *Supreme and legal fake – On the latest "trends" in local streetwear*. Bugnion News N. 31 (16 November 2018) (<https://www.bugnion.eu/it/supreme-e-legal-fake/>)

This submission, however, was formalized just over a month before that of the defendant and on the basis of a search made on the online database of the Italian Marke and Patents Office (UIBM), the registration application of the Supreme trademark on the Italian territory was filed on 9 October 2015. That means 15 years after the trademark Supreme had started to be used in Italy, initially only through the e-commerce platform managed directly by Chapter 4 (which, as expressly pointed out by the Court of Milan, was also active on the Italian market since 2000). According to the information circulated to date, it would appear that this delay was due for Supreme Corporate Group internal affairs rather than by legislative impediments¹⁶⁶.

Moreover, according to what is stated in the order of first instance, also in the United States the trademark Supreme is registered only from 2012, which is perhaps also due to the fact that the logo is largely inspired by the style and works of the American artist Barbara Kruger (which could have hindered the granting of the same), together with the fact that the word “Supreme” could be considered descriptive and/or lacking in distinctive character.



Source: Barbara Kruger www.thefashionlaw.com

¹⁶⁶<https://www.nssmag.com/en/fashion/11794/supreme-italia-condannato-per-concorrenza-parassitaria>

This notice was issued by the European Union Intellectual Property Office (EUIPO), which by communication of 25 April 2018 refused the application for registration of the European trademark presented by Chapter 4, on the basis that the average consumer of the English languages would attribute to the symbol “Supreme” the meaning “*of the highest quality*”.

The dispute concerning the Supreme brand does not seem to be fully resolved in view of the fact that the measures taken by the Court of Milan are, at present, merely anticipatory in nature (and could therefore be overcome by a possible ruling on the merits).

Among other aspects, criminal proceedings (a seizure of evidence, therefore also in this case of a purely precautionary nature) have not yet been defined, including those brought against the legal representative of International Brand Firm (which also claims to have registered the Supreme brand in over 50 countries worldwide, including Italy), the latest development of which is represented by a decision of the Supreme Court (Cass. Pen, section II, no. 35466 of 25 July 2018), which ordered a new examination of the possible prerequisites for the existence of the crime envisaged by Article 473 of the Italian Criminal Code¹⁶⁷. (Counterfeiting, alteration or use of trademarks or distinctive signs).

In its reasoning, the Supreme Court pointed out that the Court of First Instance previously hearing the case had failed to focus on the appellants' analytical objections relating, *inter alia*, to the impact of the registration of the trade mark used by the appellants on the configurability of the contested offences and the questions relating

¹⁶⁷ As established by Article 473 of the Penal Code,

“Whoever, being aware of the existence of industrial property rights, counterfeits or alters trademarks or distinctive signs, national or foreign, of industrial products, or whoever, without being involved in the counterfeiting or alteration, makes use of such counterfeited or altered trademarks or signs, shall be punished with imprisonment from six months to three years and a fine ranging from 2,500 to 25,000 euros.

Subject to the penalty of imprisonment from one to four years and a fine ranging from 3,500 to 35,000 euros, anyone who counterfeits or alters industrial patents, designs or models, national or foreign, or, without being complicit in the counterfeiting or alteration, makes use of such counterfeit or altered patents, designs or models.

The crimes provided for in the first and second paragraphs are punishable provided that the rules of internal laws, community regulations and international conventions on the protection of intellectual or industrial property have been observed”.

(<https://www.brocardi.it/codice-penale/libro-secondo/titolo-vii/capo-ii/art473.html>)

to the non-registrability of the European territory of the trade mark referred to in Chapter 4, on account of its non-individualising character.

The judgment in question also acknowledges the pending civil litigation aimed at declaring the contested trademark invalid¹⁶⁸.

Finally, The Supreme case demonstrates how essential it is for companies to monitor the market, even on-line in a precise and comprehensive way, in order to intervene and to prevent the perpetration of acts of counterfeiting and unfair competition that can jeopardize not only the value of the trademarks violated but also the reputation and credibility of the entire brand¹⁶⁹¹⁷⁰.

¹⁶⁸ <https://www.bugnion.eu/it/supreme-e-legal-fake/>

¹⁶⁹ <https://www.nssmag.com/en/fashion/11794/supreme-italia-condannato-per-concorrenza-parassitaria>

¹⁷⁰ Gentleman & fashion blog.com: *Seconda sentenza del Tribunale di Milano, che inibisce la produzione di Supreme Italia (legal fake)*. (31 July 2017)
(<https://gentlemanfashionblog.com/2017/07/31/sentenza-definitiva-fine-di-supreme-legal-fake/>)

CONCLUSIONS

Through this study we have tried to tackle the phenomenon of counterfeiting under the new perspective of online trade, analysing the techniques that have developed over time to circumvent the controls and law enforcement tools set up by the legislator.

Counterfeiting appears as a phenomenon that has always been present in human history. With the passing of time, it becomes an increasingly widespread business activity.

E-commerce has played a key role in the dissemination of counterfeit products, involving more and more different product sectors: from clothing to pharmaceuticals, from technological products to food products. Therefore, it is clear that the phenomenon in question in this study “has simply changed its connotations, its initial physiognomy, to adapt to a new economic, cultural and social context”¹⁷¹.

In an increasingly digitized scenario, the fake market has therefore experienced exponential growth in recent years, giving rise to a real turnover, characterised by reproduction techniques that make it increasingly difficult to distinguish between the genuine and the fake, posing a significant threat to the public market and to national economies themselves.

It is precisely in these grey areas that the various individuals and economic entities responsible for counterfeiting move, so the emergence of digital sales has spread a phenomenon that already caused serious damage to the image of luxury brands in a globalized perspective.

¹⁷¹ Iemma Giuseppe: *Dalla contraffazione alla pirateria digitale: origini ed analisi socio-economica del fenomeno*. (12 July 2016)

Digital technology, which does not allow the consumer to perceive physically, if not by sight, the product has alienated the customer from the brand's producer, who now has to make great efforts to be recognized uniquely by its community.

We have seen how new technologies and many initiatives of enforcement can partially rebalance the situation in favour of luxury players; because if it is true that it is easier to counterfeit the product in these modern times, it is also true that it is equally easy for parent companies to send massive messages to their customers.

The Supreme Italy case brought at the end of this work has shed a new light on the treated phenomenon and allows us to understand what kind of change is needed to better protect this sector and many others who are afflicted by the phenomenon of counterfeiting.

There is certainly a necessity for a major regulatory reform that can complement the existing jurisprudential instruments that defend both products and the luxury fashion brand.

However, no regulatory defence will be sufficient if companies do not understand that the strategy to combat the phenomenon of counterfeiting involves continuous and constant monitoring of the real and, above all, virtual market carried out by the company itself or its delegates.

This is also fundamental in order to inform the community in all the forms made available by technology, of all the known risks and traps so that every purchase is protected in terms of value and economy.

As we have repeatedly stated, this is an objective sector as far as our economy is concerned, both from a national and international image point of view, which makes its growth and defence a priority over all the threats that may afflict it.

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SUMMARY

With the increase of economic globalization processes, global markets for industrial products and services are revealing more and more high levels of complexity and choice compared to several economic factors: a wide range of brands are available for each category of products, the innovations in the services offered, new customer purchasing behaviour, the more complex determination of the changing boundaries of market segments and the progressive saturation of the market demand.

The pursuit of competitive advantage in dynamic competition engages the enterprise in the development and realization of an effective marketing strategy. It is oriented towards product diversification, in which the brand plays a key role in order to give to consumers the opportunity to associate a specific firm to specific services and goods.

As has been properly observed, from an economic and business point of view, the brand is inclined to assume a complex role, whose “distinctiveness” represents only the first element of that peculiar link that the brand is able to establish between a given supply and a given demand.

There is no doubt that the greater the power of a brand, the more likely it is that imitation phenomenon will be triggered. According to the well-known Schumpeterian scheme, when a new product achieves its success, it can be imitated by competitors, who place their trust in a follower position. In a regular market scenario, where the imitation of an innovative good has happened, the consumer finds himself faced with more or less similar offers from different company brands.

Another situation occurs when a well-known and highly requested product is reproduced (almost the same) and is offered on the market with the “counterfeit” label. This circumstance ignores the traditional rules of the market and generates competitive dynamics that compromise the efficiency of the production and distribution systems of the companies that operate in legality.

In order to understand the phenomenon of counterfeiting and to identify its characteristics, it is necessary to point out some important factors that have helped the birth and expansion of the counterfeiting activity in our country.

Firstly, if we think of an individual company, the opportunity that has often led an entrepreneur to manufacture counterfeit articles was the state of the economic crisis: in order not to end the activity, they have chosen a fraudulent management.

Another important aspect is the production strategy applied by many successful and regular enterprises, which reduced the production processes by relocating and/or outsourcing activities, initially to third-party units in same areas, then to companies in evolving countries.

This has allowed the sub-contracting companies to acquire that know-how and skills needed to produce the goods independently and thus become direct competitors of the legal firms, even in a non-legal manner.

Another relevant factor is the technological innovation that has made the equipment, the materials and the processing methods able to reproduce the peculiar characteristics of the goods recognizable by the final consumer and to duplicate them in a shorter time and with a minimum effort.

“Counterfeiting” means in the broadest sense reproducing a good in such a way that it is mistaken for the original.

In particular, it is the activity of a person who manufactures and/or sells a product with shapes, characteristics and brands similar to an original, for the production of which have been carried out studies, research, advertising campaigns of the brand and the quality of the product.

Counterfeiting is a phenomenon that has its roots in the history of mankind; already in ancient Rome the seals that distinguished the works of the most famous artists and sculptors were imitated and falsified.

It is, therefore, a phenomenon that has always accompanied the path of man, evolving from simpler forms into more sophisticated ones according to the technical-scientific progress of humanity.

Counterfeiting is, in fact, pervasive, global and the field of action of organized crime. It concerns all production sectors: from clothing to medicines and cosmetics, from food to design objects, from toys to mechanics.

In this sense, it alters the rules for the functioning of the competitive market, damaging businesses that operate legally, and represents a danger to the safety and health of consumers.

Furthermore, counterfeiting and piracy are illegal acts punishable by law. Whoever produces and/or sells a counterfeit good commit a crime and whoever buys a counterfeit good is an accomplice to a crime.

In order to protect the wide perimeter of intellectual property, there are two separate areas:

- “industrial property”, which aims to protect trademarks, patents, models and designs against counterfeiting and falsification;
- “copyright” means the protection of original titles or titles related to intellectual works of a creative nature (literary, artistic, musical, etc.)

Economic theory shows that there is a close link between economic growth and intellectual property, which protection provides the tools to reward the activity generated by human innovation. In the case of Italy, this connection is particularly important, given the preeminent role played in our economic system by the manufacturing sector and the decisive contribution of exports in the formation of the national GDP and its stability in recent years.

During the 1990s and 2000s, the phenomenon of economic globalization emerged with new characteristics, which subsequently modified the main macro-economic parameters and the strategies of companies of all sizes.

There is no reason to suppose that the behaviour of counterfeiters is to some extent influenced by situations of illegality, as a consequence of economic globalization and which can be identified in sectors of society and politics of different countries, including Italy.

To have a deeper insight on the evolution of counterfeiting processes, it would be useful to briefly recall some of the main peculiarities of globalization which, in addition to the alterations of the industrial and social systems that have occurred in Italy, have contributed to a widespread counterfeiting.

Firstly, there is the changing in sectoral production units meaning that companies start implementing a production strategy geared towards *outsourcing* and with a wide production decentralization. This has led to the formation of international sub-contracting clusters, which are spread worldwide, allowing the diffusion of illegal parallel transactions.

Then, there are the political and institutional transformations as the global trade liberalisation and deregulation; the opening up to international trade and investment by several countries; different changes in the monetary and financial systems; the constitution of the European Common Market.

Finally, the technological progress has had a great impact due to the high-tech innovations, in particular the new digital ones, have reduced communication and transport costs significantly, thus cutting physical and cultural distances across economic actors of different countries.

The three factors outlined above have increased the level of competition to global scale in all economic sectors. In this new and complex competitive environment, company value chains are structured and localized in different countries.

As a result, there is an increase in the possibilities of developing a specific production or commercial activity - by being part of a given chain or network of companies - also for the operators who deal with counterfeiting.

This has allowed the introduction in global markets of a large number of counterfeit articles, many of which are distributed through the official commercial channels. These articles are placed together with other products (belonging to dissimilar product categories) and are basically similar to those offered by firms with a well-known brand, but so as to create confusion among less careful consumers.

The result is a system parallel to the legal one, in which competition - in terms of production and product price - occurs between companies that operate in the “fake” market, generating competitive dynamics that also involve companies that operate in the “regular” market.

One of the most counterfeited sectors is the clothing one. In fact, companies in the clothing sector, with all of their internal production sub-sectors, have been suffering unfair competition by illegal counterfeiting for a long time.

According to the UIBM survey (Ufficio Italiano Brevetti e Marchi, 2012), 72% of acquisitions of forged goods concern the category of clothing.

This can be explained on the assumption of two aspects: the production system of counterfeit goods and the level of quality that the consumer perceives.

Moreover, an important aspect of counterfeiting that we are going to analyse are the consequences of that phenomenon which are very strong and significant for the socio-economic environment.

It must be said that counterfeiting is first a disincentive to innovation and, therefore, a possible slowdown in the competitiveness of the production systems involved in the phenomenon.

The damages inflicted on companies operating in the field of legality are in fact related to the lack of sales, to the reduction in revenues, to the loss of image and credibility, to the significant expenses incurred for the protection of industrial property rights.

Additionally, counterfeiting constitutes a “multiplier” of illegality because it actually integrates, in a unitary context, a plurality of illicit conduct whose final aim is the release for consumption of irregular products, i.e. undeclared work, illegal

immigration, money laundering, tax evasion, illegal trade and the interference of organized crime.

The extent of the phenomenon at the international level has been estimated by various public institutions with different methods and with results that tend to be incomplete. As confirmed by the Guardia di Finanza, quantifying the counterfeiting and piracy phenomenon is a very difficult and complex operation, if not an impossible one. The illegal nature of the activity does not allow to have exact statistics, but it is possible to make estimations, based on inductive surveys.

According to a 2016 study, presented in collaboration with the OECD (Organisation for Economic Co-operation and Development) and EUIPO (European Union Office for Intellectual Property), international trade in counterfeit and pirated goods accounted for approximately 2.5% of world trade in 2012, worth 461 billion euros. This is a considerable sum if we consider that this corresponds to the GDP of Austria or the GDP of Ireland and the Czech Republic combined. These results show how significant the economic and social consequences for intellectual property rights holders, for governments and for the economy as a whole can be.

Another relevant element to be examined concerning the impact of counterfeiting on a country's economy is the effect on jobs. Lower sales in the retail and wholesale industries reduce the demand for labour, and consequently lead to job losses. An OECD research shows that the total job losses in the Italian retail and wholesale sector due to counterfeiting imports in Italy amounted to more than 31,335 in 2016, equivalent to more than 1.7% of all people employed in the sector. In absolute terms, the highest job losses due to counterfeiting and piracy were found in the sales of clothing.

Additional feature that influences the economy is the losses in government revenues. Lower sales in the wholesale and retail sector due to counterfeit and pirated imports in Italy mean lower tax revenues for the Italian Government from value-added tax (VAT), corporate income tax (CIT), personal income tax (PIT) and social security contributions.

Finally, it is necessary to keep in mind that the degree of tax loss also depends on the efficiency of tax collection schemes. An inefficient fiscal system might allow companies to exploit gaps and mismatches in tax rules to artificially shift profits to low- or no-tax locations where there is little or no economic activity.

The OECD Base Erosion and Profit Shifting programme (BEPS) was designed to tackle this problem. According to its recent findings based on country-by-country reporting, Italy is one of the countries with the most advanced legislative framework to counter this problem.

Besides, counterfeiting causes damages mainly to three parties of the society which are: the companies owning registered trademarks, the governments and the consumers. Firstly, these companies are the ones that suffer the most from the stealing of an “intellectual property”, which refers to the value of the brand, built with many years of effort in terms of research, creativity and communication.

Then, as said below, for governments, the main effects of counterfeit goods smuggling are forgone tax revenues.

Finally, counterfeiting hurts consumers in terms of unsafe and non-reliable products.

At this point we can dwell on the meaning of trademark and its registration in order to exercise the resulting right. The definition of what a trademark is, is contained in Article 7 of the Industrial Property Code (Law Decree 10 February 2005, n. 30):

“Any sign capable of being represented graphically, in particular words, including names of persons, designs, letters, figures, sounds, the shape of the product or of its packaging, colour combinations or shades, may be registered as a trade mark provided that it is capable of distinguishing the goods or services of an undertaking from those of other companies”.

In other words, a trademark is a sign to distinguish the products and services of a company from those of other companies on the market, allowing the consumer to associate their quality standards. The trademark therefore allows the identification of the origin of the product/service by associating it with the entrepreneur.

Brands influence consumers' choices on a daily basis. A strong brand creates an identity, reinforces trust, distinguishes the owner from his competitors and simplifies communication between seller and buyer.

For these reasons, the trademark owner acquires the absolute right to make an exclusive use of the trademark.

In particular, as clearly provided in Article 20 of the Intellectual Property Code:

“The rights of the owner of the registered trademark consist in the right to make exclusive use of the brand. The owner has the right to prohibit third parties, without his consent, from using in the activity economic”.

In addition, trademark registration provides effective protection against copying, imitation, usurpation, and counterfeiting of your trademark. With the registered trademark it is possible to send warnings and take legal actions against counterfeiters who use their own trademark without the relevant authorization.

A brand must be sufficiently distinctive and individualizing to allow a product or a series of products, not necessarily of the same type, to consolidate in the memory of its customers and convey the message to be transmitted and with it all the values that the company wants its customers to associate with it.

Nowadays, it is becoming more and more difficult for firms, particularly the luxury ones, to have a personal relation with the consumers due to the innovative technologies and the birth of the e-commerce which represent a new era for the population.

Counterfeiting has been contaminated and changed with the advent of the global market and the proliferation of media and diffusion, firstly the Web. The advent of the new economy and the growing number of potential consumers has in fact led manufacturers to make massive use of advertising to allow their products to be seen on a large scale.

In fact, the diffusion of technological innovations, the increase in services offered by Internet Service Providers (ISP) and the spread of e-commerce, are the main factors

that, in addition to the propulsion functions of the legitimate trade aimed at a world-wide audience of consumers at limited cost, represent, at the same time, an element of growth and spread of counterfeit activity that impacts on all stages of the counterfeiting process trade chain, from product design to distribution and consumer final contact.

There are many forms of counterfeiting of trademarks on the web and other distinctive signs or digital piracy in violation of copyright. The possibility of detecting fraud and the identification of the main forms of access to the trade in counterfeit goods on the net differs because of the different forms that e-commerce has taken, in line with the continuous process of evolution of the net.

Moreover, some new counterfeiting techniques have emerged: the use of distinctive signs as keywords in the net has led to the phenomenon of *keyword advertising*, the registration of domains web easily traceable to well-known brands or famous people to gain an advantage economic has been identified as *cybersquatting*, while *meta-tags* consist of the use of marks within the HTML code of web pages.

The difficulty in combating counterfeiting on the Internet is due to fact that there is a lack of global governance for the Internet and the global digital environment.

However, there is an authority designed to combat counterfeiting called National Anti-Counterfeiting Council (CNAC). It is the inter-ministerial body provided to have the function of “driving and coordinating the Strategic Actions undertaken by each administration, in order to improve the overall action against counterfeiting at national level”.

Through the implementation of precise strategic actions, the CNAC has the objective of triggering a cultural change capable of reducing both supply and demand for counterfeit products.

Specifically, my study analyses counterfeiting phenomenon and its strong impact on the luxury industry.

Firstly, luxury goods are defined as products whose demand increases more than proportionally to the increase in income, unlike what generally happens in other markets.

The definitions of “luxury” proposed by sociologists, corporatists, and consulting firms on the basis of market research and sector studies, focus instead on the elements of the marketing mix developed specifically for this category of goods.

In fact, luxury good products are presented as products capable of attributing prestige status to those who manage to enjoy them. They are distinguished by their excellent quality, high price, highly exclusive character and the emotional and involvement component that accompanies the act of purchase and possession of the good.

For years, the luxury industry has waged a battle against counterfeiters. It has invested heavily in ultra-sophisticated tech solutions which use the latest advances in nanotechnology, internet of things (IoT), and AI (Artificial Intelligence) to authenticate products. It has lobbied governments to extend enforcement bodies’ powers to seize and destroy fake goods, to prosecute buyers and dealers, and to block access to websites that sell counterfeit goods.

Digital plays a big role in this and perhaps 40% of the sales in luxury fakes take place online, as today’s counterfeiters exploit the ubiquity and anonymity of the internet space to the limit.

Finally, concluding my work, I dwelt on a case study regarding the Supreme trademark, in which it has investigated the concept of the “legal fake”.

This term is intended to define the practice of persons who precede the owner of an original trademark in the filing of the same, in a territory where the latter is not yet registered. Based on the exploitation of the trademark thus obtained, the person involved carries out his business activity (from the production to the distribution of the garments distinguished by the trademark in this case) acting as the legitimate owner of the original trademark (or licensee of the same), thus imposing himself in the eyes of consumers and also suppliers and retailers often unaware.

This practice implicates an appropriation which is often not only limited to the brand, but also to a number of additional elements that characterize the style of the products, the brand image and the marketing strategies adopted by those who created the original brand. It is a procedure in which you anticipate a company that is succeeding in certain

countries, registering a trademark equal to yours in a market where it has not yet been registered.

This is what specifically happened to the famous American firm, Supreme, created by James Jebbia. The “Italian Supreme” fake firm has tried to steal the original Supreme trademark registering the same in Italy before the American firm does.

Supreme Italy takes advantage of the mediatic success and the reputational capital so heavily constructed by Supreme New York during its thirty years of activity.

Supreme Italy is bought by naïves fans and streetwear novices, but also by retailers and shops, convinced to be buying the original brand.

Furthermore, Supreme Italy has copied all the distinctive features of the original brand: from advertising material to the famous logo. For this reason, as a result of countless notifications, the Milan Court ultimately confirms the existence of counterfeiting and unfair “*parasitic competition*”.

For unfair “*parasitic competition*” is meant the phenomenon whereby the imitator, in the wake of a competitor success, continually and systematically copies the products of the latter, take advantage of creative and organizational efforts and investment of advertising nature in a “*parasitic*” manner, that is to say, without incurring any costs.

As a consequence, the Milan Court has upheld Supreme’s application for interim measures and ordered the Italian competitor to immediately cease production, export, and marketing of clothing or any other product unlawfully bearing the Supreme trademark.

Finally, the Supreme case demonstrates how essential it is for companies to monitor the market, even on-line in a precise and comprehensive way, in order to intervene and to prevent the perpetration of acts of counterfeiting and unfair competition that can jeopardize not only the value of the trademarks violated but also the reputation and credibility of the entire brand.