

“The Luxury E-Commerce Marketplace:
the selective distribution faces the online distribution”

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Academic Year 2024/2025

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INTRODUCTION

The luxury industry has traditionally been associated with exclusivity, craftsmanship, and selective distribution models that preserve brand prestige and consumer desirability. Luxury goods have historically relied on controlled retail environments—flagship stores, directly operated boutiques, and carefully chosen intermediaries—to protect their symbolic value and maintain the aura of scarcity. However, the rise of digital technologies and the rapid expansion of e-commerce have profoundly disrupted this traditional model, forcing luxury brands to confront an apparent paradox: how to embrace the opportunities of online distribution without eroding the very essence of luxury.

This tension between exclusivity and accessibility lies at the heart of the contemporary luxury marketplace. On the one hand, online platforms offer unprecedented visibility, global reach, and access to new consumer segments that would otherwise remain out of reach of traditional retail. On the other hand, they present significant risks, including the commoditization of luxury goods, the dilution of brand image, and the alarming growth of counterfeiting. These challenges raise critical questions not only for luxury brand managers but also for regulators and policymakers tasked with balancing market competition, consumer protection, and the safeguarding of intellectual property rights.

Against this backdrop, the European Union provides a particularly relevant legal and economic framework. EU trademark and competition law play a decisive role in shaping the boundaries of online distribution for luxury brands. Landmark cases such as *Coty Germany GmbH v. Parfümerie Akzente GmbH* have further clarified the extent to which luxury brands may restrict the sale of their goods on online marketplaces in order to preserve their image of exclusivity. The ongoing debate highlights the complexity of reconciling the principle of free competition with the distinctive needs of the luxury sector.

The objective of this thesis is to analyze the impact of e-commerce on the distribution strategies of luxury brands, with particular focus on the interaction between selective distribution systems and online marketplaces. It seeks to understand whether online distribution can coexist with the preservation of luxury's core values, or whether it inevitably undermines the essence of what makes a product "luxury." By exploring first business and then legal dimensions, the research aims to provide insights into how luxury brands may navigate this evolving landscape, ensuring that digitalization becomes a source of opportunity rather than a threat.

Furthermore, the luxury companies' perspective have been investigated with the "is it luxury or not?" research question. Brunello Cucinelli, Dolce & Gabbana, Guess and Michael Kors are organizations belonging to this peculiar market sector, hence their press offices and keypeople were asked to answer a short qualitative questionnaire, which essentially revolved around the importance to achieve or to maintain this status and the strategies adopted. It was a way to hear directly from these companies to better understand their power, granted by the luxury status which also enable to set ridiculous prices, and not only no one complains, but consumers are willing to go even further to keep the social status offered by their goods.

CHAPTER ONE

THE LUXURY ANALYSIS

1.1 The Luxury Concept

Relative and subjective, luxury is defined as what is rare, expensive, refined and exquisite. Luxury also appears as the fruit of a creation, almost directly linked to art. Associated with the emotional, experimental and sensory aspect, it knows how to adapt to societies and times. From an etymological perspective, the word luxury comes from the Latin “luxus” which means superabundance, excess in the way of life or a display of wealth aimed at satisfying desires that transcend real needs. “Luxury is any expense that exceeds what is necessary”¹.

There is no unique definition of “luxury”; on the contrary, it takes on different forms and meanings in relation to the context of space and time as well as according to the perspective of the study. The term luxury, eventually, can take on a negative meaning, linked to images of exaggeration and immoderation. From the Latin “luxation”, i.e., distance, suggests that luxury describes a considerable departure from the usual way of satisfying needs. This sphere is usually connected to experiences, objects and services and is marked by a high symbolic value for which the consumer is willing to spend exorbitant amounts well above the average price of the category to which the product belongs, which in turn is definitely not anchored to the simple sum of production costs².

From these considerations, two different interpretations of the concept of luxury emerge: on the one hand, it portrays a form of ostentatious consumption that motivates the need to acquire the good to exhibit status and wealth; on the other hand, it refers to the emotional dimension (hedonistic consumption) favoring the search for gratification and personal satisfaction. Luxury in this case means giving oneself the best and seeking one’s own pleasure and well-being.

The meaning attributed to luxury has undoubtedly undergone a metamorphosis over time, changing form and value in different historical periods. From “Paleolithic” luxury perceived as a cultural phenomenon, a mental attitude that saw the affirmation of man as a social being and not an animal to

¹ Sombart, 1967.

² Kapferer and Bastien, 2012.

the sacred form made up of symbolism and closeness to the divinities of ancient Egyptian and Roman empires. Particularly, many authors identify a transitional phase in the conception of luxury after the wave of the second industrial revolution³.

In particular, the shift was from a conception of luxury rooted in an aristocratic and artisanal tradition, characterized by handcrafted goods made from rare, high-quality materials and sold locally to mass production, increasing output, that enabled the spread of luxury goods beyond local markets, laying the groundwork for today's global luxury industry.

If in the past the experience of luxury was reserved for a privileged few, today it has broadened its horizons, extending to new groups of buyers and new categories of products (cosmetics, jeans, accessories, food and consumer electronics). The world of luxury has now abandoned the aura of sacredness and uniqueness that had characterized it up to that point to enthusiastically marry the cause of innovation and the future: the Italian style defined the expression of a quality of life that was not reserved only for the most elitist strata of the population and found its counterpart in the peculiarity of the production model of the industrial districts; it was capable of responding with great flexibility to the growing complexity of demand.

Since the second half of the twentieth century, the growing mass production has seen the flourishing of the “democratization of luxury” which has brought not only the wealthiest people to the market but also, increasingly, a large part of the population as a whole, thus breaking down the strong social stratification. The so-called “Neo-Luxury” offers high-quality products and services at a more affordable price to the majority of middle-class consumers. This transformation was illustrated through the phenomenon of trading-up: the desire and intention to pay a premium price for goods that have a high degree of quality, aesthetic taste and attractiveness compared to products in the same category but that are not so unapproachable⁴. People are thus inclined to spend more on the product categories they are interested in and in some selected brands (trading-up) and less on less interesting product classes (producing the so-called trading down) to be able to invest savings in new luxury products. Luxury becomes beauty, pleasure and dream and accompanies the consumer in an experience capable of involving the multiplicity of the senses.

³ Danziger, 2005.

⁴ Silverstein et al. 2008.

The term premium is not synonymous of luxury and there is a discontinuity between the two. Something luxury is somehow more special than premium products⁵. Diesel, Starbucks and BMW are companies that have made use of the phenomenon of accessible luxury. Unlike traditional luxury goods (e.g., Chanel, Rolls Royce and Cartier) whose price confines them to elite consumers, neo-luxury goods can generate higher sales volumes despite higher prices compared to that of other products in the same product category. Thus, exclusivity marries mass appeal. In fact, although new luxury goods cost approximately 200% more than those of competitors, they remain within the reach of a substantial proportion of consumers who are willing to own products with superior functional, technical and emotional benefits; they balance costs by purchasing goods at minimum prices in categories that are not of a similar kind of importance.

The competitiveness and market positioning of luxury companies require a renewed ability to understand these changes to provide an adequate response to the needs of a more attentive and sophisticated consumption. Prada, Pirelli PZero and Balenciaga are examples of firms that have taken up this challenge, updating luxury through the avant-garde, the enhancement of comfort, practicality and the exaggeration of technological detail. It is luxury with a human face that no longer leaves anyone out but rather aims to understand an ever-widening world. From the stage of the Triennale di Milano 2018, the guest of the conference Next Design Perspectives, Gucci CEO Marco Bizzarri, explained that the era of luxury exclusivity has come to an end, leaving room for a much broader and more varied concept. The exclusivity of the world of luxury is false and is now over, explained the manager, and the alternative is to focus on the opposite concept, that of inclusiveness. Inclusiveness is also driven by social networks that directly connect brands and consumers and generate a community.

Within the complex world of luxury, various authors have attempted to identify macro-segments of clients, and it was divided the luxury market into three distinct categories that refer to different social classes⁶. The taxonomy developed distinguishes between inaccessible luxury, intermediate luxury and affordable luxury. Inaccessible luxury is characterized by custom-made products produced in limited numbers and distributed through a highly selective network. The prices of these products are undoubtedly very high. These products project the consumer into a dimension of rarity and unsurpassed exclusivity, offering the realization of desires reserved for a small circle. Hence, inaccessible luxury is the tip of the pyramid. This class is associated with haute couture collections

⁵ Kapferer and Bastien, 2012.

⁶ Allèrès, 1990.

and precious items and reflects the idea of luxury established before the advent of the “new luxury.” Intermediate luxury products have a lower degree of uniqueness than inaccessible ones; they are produced in small quantities and distributed through selected sales channels; they are sold at a price that, although high, does not reach the same levels of inaccessibility as those of the upper class. This category includes prêt-à-porter and ready-to-wear collections that better fit the idea of “new luxury.” Finally, affordable luxury includes products that allow a wider range of consumers to get closer to the emotional experience of buying luxury products. The extension of the luxury brand in categories such as perfumery, eyewear and cosmetics is a typical way to enter the world of luxury even for those who cannot afford to spend large amounts.

In line with this pyramidal perspective, a study analysing business models highlights four different levels of brands⁷. At the top is the “griffe,” which conceptually approaches the previously illustrated theory of inaccessible luxury. The brand was described by Kapferer as a signature on a unique work. In a single definition, the author encompasses the image of uniqueness and craftsmanship: we are in the realm of art and not of simple style. The materialization of this perfection leads the consumer to feel like the protagonist of an elitist dream. At the second level, there are “luxury brands” produced in limited series with a very high quality. This lower step incorporates the output of simplified mass production in which the level of industrialization is higher. In this range of products, brand awareness generates intangible added value for expensive and premium quality products. At the base of the pyramid are branded goods produced in large quantities and sold at a lower price to a wider range of consumers. The limitation of this business model lies in the fact that the more the lower categories and products expand at an affordable price, the more there is a risk of moving away from the top of the pyramid and, therefore, from the creativity and valuable heart of the brand.

1.1.2 Luxury Goods Attributes

The aforementioned considerations clearly emphasize that clients are willing to pay a premium price for luxury products. Nevertheless, it would be reductive to dwell only on the price variable to identify luxury products. Price is one of the most important attributes; it is a necessary condition for luxury but not a sufficient condition. In attempting to outline what else represents luxury, one can identify some characteristics considered as basic minimum requirements. Luxury is a plexus of meanings that largely transcends economic value and perfectly calibrates a mix of attributes⁸. The luxury brand experience is never characterized by a single trait; it is multifaced and the result of a mix of innovation

⁷ Kapferer and Bastien, 2012.

⁸ Fabris, 2003; Corbellini and Saviolo, 2015.

and creativity, tradition and history, superior quality and high prices, exclusive communication and selective distribution, the imaginary and storytelling. Luxury products are often also perceived as rare, and selectivity is to be understood not only at the product level but also from the perspective of the customer, who feels he belongs to a small circle of elected representatives: “the happy few”⁹. Some luxury products are adapted to clients’ personal needs, and no one else will have access to the same. Custom-made products enhance the sense of exclusivity that a luxury product can offer. Reliability and perceived durability lead the consumer to an attitude of trust so that there is no fear of defects. Upon extremizing the concept, we can say that a luxury product is associated with an image of perfection and eternity. The interpretation and mixture of each of these attributes generates the so-called brand signature or ‘brand DNA,’ the company spirit that enhances rarity, exclusivity, visibility and uniqueness and in which clients find a means to express themselves. In this respect, communication and distribution strategies are central to correctly and coherently tell, share and sustain the brand DNA. Luxury stores are considered shopping cathedrals; they enjoy significant investments, are considered crucial to a brand’s marketing and reputation and do not merely support brand sales. Therefore, luxury companies often own stores to increase the control over customer relationship and experience at the point of sale.

1.1.3 The Luxury Market Trend

The global annual revenues of the global fashion industry in 2019 accounts for €1.64 trillion, including footwear and jewelry. Among these, women’s fashion accounts for the 51.5% of the overall amount. The fashion industry enjoyed a growth of between 4 and 5% since 2013 and, particularly, the luxury industry witnessed gains, driven partly by the return of luxury consumption in Asia. This positive growth continued at about 4–5% in 2018 and 2019 and it is expected to continue in the range of 3–5% through 2025 despite the complexity and turbulence of the global environment in which luxury firms operate¹⁰. These data do not consider the Coronavirus Pandemic crisis in 2020.

Over the past five years, the luxury industry experienced a period of exceptional value creation. Between 2019 and 2023, unprecedented demand for personal luxury goods—fashion, leather goods, watches, and jewelry among them—combined with a deep well of supply allowed the sector to achieve a 5% compound annual growth rate. Luxury brands outperformed global markets and achieved new profitability records. The pace of growth across the industry was remarkable and swift,

⁹ Kapferer and Bastien, 2012.

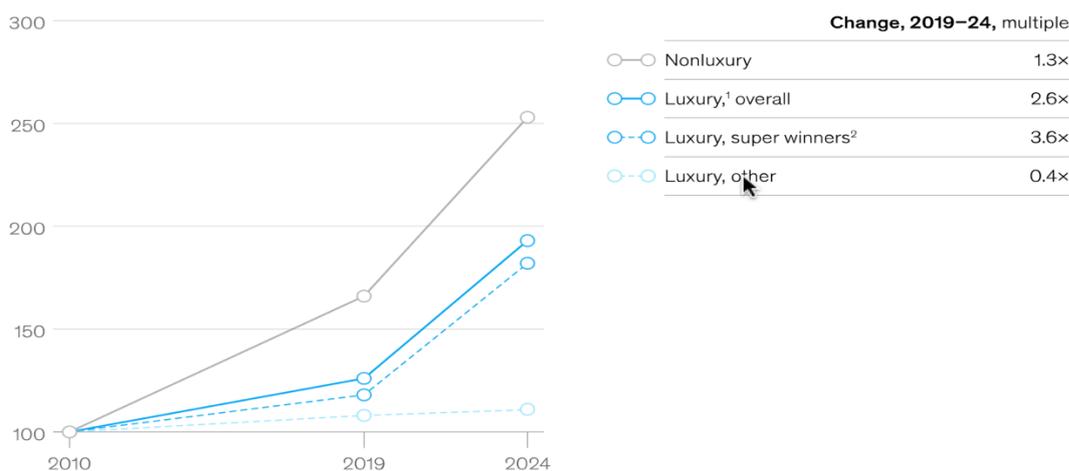
¹⁰ Bain and Company, 2018.

while luxury “megabrands” with annual revenues over €5 billion (\$5.3 billion) used their scale to drive even greater visibility and desirability (Exhibit 1).

Price increases accounted for more than 80% of growth during this period, while volume gains were more moderate¹¹.

The luxury industry’s economic profit nearly tripled from 2019 to 2024.

Change in economic profit, index (total industry 2010 = 100)



Note: Total industry includes luxury and nonluxury for the following categories: apparel, footwear, leather goods, jewellery, and watches. 2024 data based on H1 actuals and H2 analyst consensus.
¹Includes affordable luxury.
²Top players based on 2023 economic profit.
 Source: McKinsey Global Fashion Index in The State of Fashion 2025

McKinsey & Company

Exhibit 1 – The luxury industry’s economic profit nearly tripled from 2019 to 2024. Adapted from “The State of Luxury: How to navigate a slowdown”, McKinsey, 2025.

Stepping into 2025, the luxury industry is facing a significant slowdown that has hit even top brands hard, not dissimilar to what the broader fashion industry is experiencing. For the first time since 2016 (excluding 2020), luxury value creation is expected to create less value than the previous year. Several of the industry’s growth-driving engines have stalled. Price increases have reached a ceiling, and higher prices are negatively affecting demand from aspirational luxury consumers. Macroeconomic headwinds—especially in the key China market, which drove more than 18% growth annually from 2019 to 2023—are weighing heavily on the sector. Meanwhile, the luxury client base is becoming more diverse, and clients have a more complex relationship with luxury goods than ever. Having a differentiated value proposition that is appealing to this diverse client base is essential, given the anticipated low-growth environment. Further, clients are becoming more interested in luxury experiences, not just luxury goods. This dynamic creates new trade-offs for clients to consider,

¹¹ McKinsey, 2025.

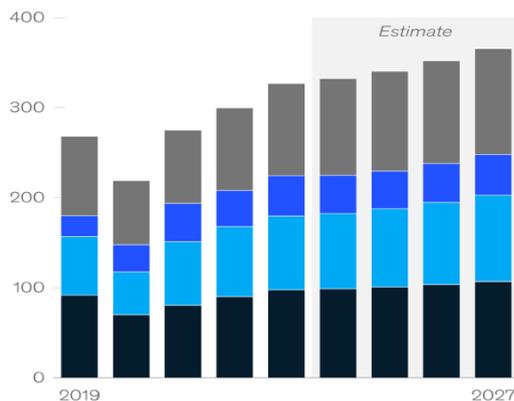
meaning personal-luxury-goods players must exceed higher-than-ever client expectations to win spend over luxury travel and wellness experiences, for example¹². But luxury’s woes are also partly self-inflicted. The sector’s rapid expansion over the past five years has led to overexposure and has weakened the industry’s promise of exclusivity, creativity, and craftsmanship.

Brands increased prices, though some failed to sufficiently adapt their creative strategies and supply chains to meet new scale requirements, thereby weakening their core value proposition and ultimately failing to keep their promise to clients. Even the brands that have evolved over the past several years are subject to increased pressure, as consumers are questioning the luxury promise—one of uncompromising product quality and personalized, white glove experiences—and demanding more innovation. As a result of these strategic choices and economic headwinds, growth in the years ahead is expected to be slower, reaching between 1 and 3% annual growth globally between 2024 and 2027 (Exhibit 2).

Dynamism in emerging markets such as the Middle East, India, and other Asia–Pacific regions will not compensate for single-digit growth expected in luxury’s core markets, including the United States, Europe, and China. The industry can use this new chapter as an opportunity to reflect and recalibrate.

Global luxury sector growth slowed considerably in 2024 and will be modest in the years ahead.

Global market for personal luxury goods, by region, \$ billion



	CAGR, %			
	2019–23	2023–24	2024–25	2025–27
Rest of world	4	4 to 6	2 to 4	2 to 4
China	18	–7 to –5	–3 to 0	3 to 5
US	6	1 to 3	3 to 5	4 to 6
Europe ¹	2	0 to 2	1 to 3	2 to 4

Note: Luxury goods market includes: apparel, footwear, leather goods, jewellery, and watches.
¹Includes Russia.
 Source: Analyst reports, company results, and expert interviews; ECB; Euromonitor historical; Savills; Trading Economics; McKinsey Global Fashion Index in The State of Fashion 2025; McKinsey Global Institute analysis

McKinsey & Company

Exhibit 2 – Global luxury sector growth slowed considerably in 2024 and will be modest in the years ahead. Adapted from “The State of Luxury: How to navigate a slowdown”, McKinsey, 2025.

¹² Ibid.

There must be five strategic imperatives for luxury executives in the coming years¹³:

1. Conduct a strategic reset: clarify core values and align on priority clients to sharpen the brand's long-term strategy and differentiated value proposition, including assortment, communication, price architecture, and experience. Also review the synergies large groups may achieve by launching initiatives jointly, be it on growth acceleration or cost excellence.
2. Restore product excellence: Continue to invest resources in creating iconic products that will resonate with target clients and uphold luxury's promise of quality and value. Realign business scale with craftsmanship heritage by investing in long-term supply chain stability (through vertical integration, for example) and by implementing best-in-class sourcing and manufacturing practices.
3. Rethink client engagement strategy: Continue to develop unique "money can't buy" experiences, both inside and outside stores, for the most loyal and for those with the highest potential that may have been underserved in recent years. These experiences must align with the brand's ethos and not simply chase the latest trends. Invest in tech, AI, and data capabilities to uncover powerful client insights to help better personalize client journeys and drive decision-making across the organization.
4. Bridge the talent capability gap: Attract, develop, and retain the best talent across every critical function, not just in creative roles. Executives should focus on building great brands not only for their clients but also their employees. This means having a best-in-class talent management system and evolving operating models and corporate culture to cultivate a high-performance environment where exceptional people thrive. Professionalize operations across major business units—including digital, data, technology, supply chain, and procurement—by emulating best practices from other sectors. Adopt an out-of-the-box approach to bridge capability gaps in these functions, and also look outside luxury for highly skilled talent.
5. Future-proof the portfolio: Review exposure to different luxury categories and regions. Define a clear role and goals for expansion into adjacent categories (including travel and hospitality) to maximize client engagement while staying true to the brand. Allocate focus and resources to these new ventures without neglecting the core business. Assess the portfolio and consider divestitures where relevant or seek complementary acquisitions to build resilience and secure an edge in a more competitive market. The scale and speed of these shifts will likely continue to shape the industry in the coming years.

¹³ BOF and McKinsey, 2025.

1.2 Luxury Brands Distribution Strategies

Distribution strategies implemented by firms operating in luxury markets are typical and specific with respect to firms in other markets and represent a source of competitive advantage. It is a matter of how luxury brands address this tension and navigate the contradictory imperatives of inclusivity and exclusivity, or in other words, of selling to both the “happy few” and the “happy many”¹⁴.

Four phenomena have characterized distribution in this area in recent years. First, a growing investment by luxury brands in direct distribution activities, with the development of innovative formats, such as flagship stores, DOS and temporary stores, that are used to represent the brand’s reference values and the product’s symbolic attributes to the consumer in a tightly controlled distribution channel. Here luxury firms enlarge their markets and increase their market share by strengthening their control over the distribution channel. Vertical integration downstream into directly managed distribution activities does not lead luxury firms to abandon indirect distribution options, which they maintain especially in markets characterized by a higher degree of risk and which allow for balanced distributive coverage.

Second, the integration between distribution and communication activities, which finds its most concrete expression in the point of sale managed from an experiential perspective. The consumer has the opportunity to see all the reference values of the brand in the show space, represented by modern means of communication, including multi-media productions, at the point of sale.

Third, the development of the digital channel in luxury markets. This distribution channel has enabled firms to extend their market to new consumers who have different socio-demographic characteristics and are located in emerging countries. High-symbolic-value goods are traditionally considered incompatible with the digital channel; even today some companies that maintain an extreme positioning of their brand believe it inappropriate to develop distribution activities in the digital channel. The digital channel is increasingly integrated with the activities of physical distribution, and this integration makes it possible on one hand to extend the consumer’s shopping experience, and on the other to maintain long-term relationships.

¹⁴ Kapferer and Bastien, 2012.

The latest trend concerns the growing integration between User Generated Content and distribution channels. Brand communication in luxury markets has undergone further development with social-media marketing dove-tailed into digital and physical distribution channels. The consumer is ready even in luxury markets to receive information from brands, to share that information and to respond by liking the product and purchasing it in the digital or the physical channel. The goal of a distribution system is to effectively realize the contact between consumers and products.

The main factors that influence decisions on distribution are the characteristics of the consumer, of the product and of the firm¹⁵. The elements of uniqueness and rarity characterizing high-symbolic-value goods must be consistent with marketing and business-development goals. At first glance it is possible to identify two opposite, conflicting needs for firms that have to manage the distribution of goods in high-end markets: to preserve and strengthen the brand image and the idea of the uniqueness of the product, and to make products available in an efficient and effective way in the markets of reference. The first requirement leads management to adopt a selective approach to distribution and to prefer choices regarding the control of intermediaries that enable it to maintain leadership in the distribution channel. The second induces management to give the products maximum market presence, via indirect as well as direct options. In this sense, the strategic management of luxury goods' distribution variable involves a balancing act between the two conflicting requirements of preserving the exclusivity of the brand and the product and gaining market share, in other words, between control of the channel and adequate distribution coverage.

Strategic decisions concerning the distribution variable touch on the following aspects:

1. The vertical structure of the distribution channel, i.e., the choice between direct or indirect distribution and, in this respect, between short or long channels and the allocation of functions between the different actors. When distribution is direct, the firm sells its goods and services to the final consumer through its own sales personnel or proprietary points of sale. Conversely, distribution is said to be indirect when there are one or more intermediaries between the manufacturer and the end customer. In indirect distribution the channel can be short, when there are few intermediaries, or long, when intermediaries are numerous.
2. The distribution coverage, which apply to the number of intermediaries required to achieve the desired level of market coverage. Here firms can use a distribution coverage index, such as the intensity of distribution defined as the number of points of sale at which the finished product is

¹⁵ Mosca, 2014.

available for purchase. On the basis of indexes of this kind many scholars distinguish between intensive, selective and exclusive distribution¹⁶.

Most luxury brands tend to minimize as much as possible the number of intermediaries that are part in the distribution activity, which in turn culminates in the brand being able to exert as much control as possible on its products when they are sold to final consumers.

The number of intermediaries at each level of the distribution channel is a choice that can follow three different strategies:

1. Intensive Distribution Strategies: in which the products are sold in as many outlets as possible. Consumer goods companies such as Coca-Cola and P&G distribute their products using this specific strategy. It makes the products easily accessible to consumer anywhere.
2. Exclusive Distribution Strategies: these are strategies put in place by companies that want to restrict the areas in which consumers can find specific products. They do so by limiting the number of intermediaries in the distribution channel and by providing them with an exclusive right to sell the products in their territories. This practice can often be found when looking at luxury distribution strategies, because it helps at enhancing the distinctive brand's positioning and makes it possible to earn greater dealer support and customer service.
3. Selective Distribution Strategies: between the extremes of intensive and exclusive distribution lies the selective distribution strategy. It relies on the usage of more than one but still a very small number of intermediaries in the distribution channel who are allowed to sell a company's products. Usually, this type of distribution strategy was and is still used by producers of electronics or home appliance products. Nevertheless, in recent years, luxury brands have begun adopting this peculiar strategy and sometimes withdraw the adoption of distributing through exclusive agreements¹⁷.

Even though there is more than one path to follow an analysis of the distribution strategies of a sample of firms clearly shows a marked acceleration in exclusive direct distribution: the number of points of sale owned by firms and the turnover resulting from them increases as a percentage of sales volumes through independent intermediaries. Many brands, such as Bulgari, Prada, Armani, Loro Piana, Zegna, Gucci, Tod's, Montblanc, Lancel and Louis Vuitton, have gradually increased their presence

¹⁶ Ibid.

¹⁷ Ibid.

in direct distribution by opening new points of sale in major world markets, reducing the percentage of turnover from indirect distribution activities in favor of direct distribution¹⁸.

1.2.1 Direct Distribution

There are many diverse strategies that firms can adopt to directly distribute and market their goods. These specific strategies are carried out with the intent of maximizing the return on sale, as well as preserving the brand image over time¹⁹.

1. **Flagship Stores:** These types of stores are directly managed by the manufacturer and usually respond to the aim of being representations of the brand values. In these stores, communication is key and it often is more important than generating sales. They are located in the most prestigious areas of major international markets, usually characterized by a large display area, in which customers can find all products categories of a brand. They are thought of as a mode to convey brand image and values, and they often offer multi-sensorial experiences to customers which allow them to become fully immersed in the brand's mindstyle.
2. **Directly Operated Stores (DOS):** These stores are usually smaller than flagship stores, but they are still located in important city centers and in major international markets. In contrast to the store type above-mentioned, DOS have the purpose of delivering high return on investments to the company, and they can achieve this target mainly because of the place in which they are located which in turn makes it possible to reach a large customer base. It is interesting to note that several researches have pointed out the fact that revenues from retail perform better than revenues from wholesale, and the percentage of sales through the specific DOS channel increases every year, being it around 55%.
3. **Shop in Shops (SIS):** These stores are characterized by single-brand points of sales, which are usually located under a different commercial sign or in department stores which offer various other brands (which are often competitors of the brand in question or offer similar product categories). They are mostly small in size, typically similar to what a corner store would be like, but the difference lies in the fact that is SIS the staff pertains to the controlling brand, not the department stores. As a category of SIS there are also Factory Outlet Centers which are used by

¹⁸ Ibid.

¹⁹ Ibid.

luxury brands to sell unsold or end-of-lifecycle products at discounted prices, allowing continued distribution outside of full-price retail channels like DOS.

4. Temporary Stores or Pop Up: These stores are directly managed by the company, nevertheless they are only opened for a limited period of time. First and foremost, the aim of opening a temporary store is that of informing the clientele, sometimes of creating a buzz around a brand, to evoke emotions and reinforce the brand image in the eyes and minds of consumers. There is however a secondary function of temporary stores, which is that of creating a large amount of traffic in the point of sale and boost purchase. This type of stores supports the brand in enhancing the concept of rarity and exclusiveness, which is mainly a consequence of the limited (often short) amount of time in which they are opened, that makes the clientele perceive the luxury products' scarcity²⁰.

1.2.2 Indirect Distribution

There are several advantages of indirectly distributing luxury goods. The main ones, especially when looking at an international scenario, are related to the reduction of risks and costs which are transferred to the intermediary distributing and selling the luxury goods. Nevertheless, the greatest disadvantage is that the manufacturer loses control over its products.

1. Specialized Intermediaries: This type of intermediaries usually acts in multi-brand points of sale or boutiques, which are specialized in a specific merchandise category or customer type. They usually carry a variety of different brands, with a high price point and rely on personalized services. Nevertheless, the fact that they carry numerous brands represents a risk for the manufacturer, in fact the consumer could be confused, and this can ultimately result in devaluing the brand's image and positioning. It is for this reason that the producer often establishes marketing policies with selling goals or collaborative relationships with the distributor, not to incur in the situation where customers as well as brands' expectations are not met.
2. Department Stores: This format includes a large surface, usually consisting of several floors, where numerous prestigious brands are present at the same time and private labels coexist. In countries like the United States, South Korea or Japan, department stores are the primary retail channel to sell luxury goods. Department stores offer their customers with the possibility of

²⁰ Ibid.

satisfying a variety of different needs by providing different merchandise categories, while at the same time providing them with an offer that can vary across diverse price points in all categories.

3. **Dedicated Spaces or Corners:** These spaces or corners are areas in which the offering of a single brand is present, but they are not directly managed by the manufacturer. All decisions pertaining to the atmosphere, display and offering are made by the company's brand, but sales staff and services are provided by an external actor. This type of indirect point of sale carries several advantages, among which the improvement of the distribution coverage, the fixed costs' reduction and the preservation of brand image in the eyes of consumers.
4. **Duty Free Shops:** Nowadays, an ever-growing percentage of luxury goods is purchased by people while they are travelling. Duty-Free shops are located in areas such as airports or railway stations. This type of intermediary works on a basic condition, as the products have not yet entered into a country, they are not liable for import duties. In order to benefit from the potential arising from this intermediary point of sale, it is essential to carefully manage the store's image as well as its visual display within the store²¹.
5. **Franchise Networks:** They represent the most adopted and developed form of contractual vertical distribution system and they are represented by independent firms located at various stages of the channel. In a franchise system, the franchisor grants the franchisee with the right to use its commercial formula as well as sign or brand in specific contexts, stipulating an agreement between the two parties that lays down specific rules that the franchisee has to follow. The franchisor gives the franchisee support, strategic knowledge and the right to use the brands. At the same time, the franchisor agrees in paying a fee for the right to use that brand and for the resulting benefits generated by the franchisor's contribution to offer his know-how.

Luxury brands face a paradox in their distribution strategy: they must maintain their exclusive brand image while also expanding their market presence to meet growing consumer demand. While they once relied solely on their own retail networks, they now adopt a mix of direct and indirect methods, especially when expanding internationally. To balance control and reach, they increasingly use selective distribution systems, which allow them to choose distributors based on quality criteria. This helps protect their brand image and allows consumers to distinguish their products from competitors, but in this digital era it can turn out to be a double-edged sword, as it will be explained in the next chapter.

²¹ Ibid.

1.3 The Online Distribution

Shopping has become the fastest-growing use of the Internet, and almost 40 percent of Internet users report shopping as a primary use of the Web. Price comparison sites and shopping agents enable consumers to obtain and compare prices rapidly and put pressure on brand. Specifically looking at luxury consumers, they see little or no problem with luxury brands having websites showing their merchandise, but are less in favour of the possibility of online purchasing.

The recognisability of the luxury products is accepted and even welcomed, but there is a fear of large distribution. The feeling of “me and a few more, but not everyone” is prevailing. Luxury brands, more than any other brand categories have a great deal to gain but also a great deal to fear from the Internet²². The Web will give an opportunity to buy to those potential customers who do not have nearby access to one of the few distribution outlets of a luxury brand or who feel intimidated from entering “such temples of luxury”. At the same time, for brands whose image is based on excellence and on highly selective distribution channels, there is a real threat of “commoditisation”, arising from being referenced by other portals and being pirated by those who buy merchandise on the grey market²³.

Suppliers of counterfeit merchandise have, like the luxury conglomerates, recognized the penetrative power of the Internet. The practice of counterfeiting has boomed with the possibility of selling on the Internet. Having shipping all over the world with short delivery times and much lower prices than original goods. Also do not face the problem of being out of reach of mass consumption. Counterfeiting, which will be further investigated in the next paragraph, is not a new phenomenon but with new sophisticated ways to reach consumers the business is increasing rapidly.

1.3.1 The Consequences: Luxury Goods Counterfeiting

A side effect of the widespread appeal of luxury is the growth of the market of counterfeits, both deceptive (buyer is not aware) and non-deceptive (sold at a low price, the buyer knows it is not the original but a nice looking copy). The former cheat the buyer; the latter do not. With regard to the latter, counterfeits make the luxury dream and logos accessible to those who cannot afford them but want to be integrated. In addition to being unlawful by principle, counterfeiting has another drawback,

²² Kapferer and Bastien, 2012.

²³ Radón, 2012.

in that the value of luxury brands rests on their ability to select the right clients. When a brand evokes non-aspirational clients, it dilutes its social appeal.

Objectively, the multiplication of counterfeits creates a risk of prejudice, because they diminish the all-important exclusivity factor that is required to sustain the value of luxury²⁴. Since the exponential increase in counterfeit products' sales, it has become a significant concern among scholars, policymakers, companies, and non-governmental organizations because of its important influence in economic growth²⁵.

Counterfeit and pirated products account for approximately 5%–10% of the international market²⁶. Each year, the United States Department of Homeland Security seizes hundreds of thousands of imported counterfeit goods such as handbags, jewelry, fashion apparel, and food items. The global trade in counterfeit goods or services is worth \$461 billion, and that some \$100 million worth of fake goods are seized each year entering the U.S.²⁷. Developing countries, due to the poor law and order situation are considered as the hub of counterfeit products.

Economists have found that increasing trends in counterfeiting directly influence the loss of employment as well as damage brand reputation and national economies. For instance, it was confirmed that over 2.5 million people worldwide were unemployed because of counterfeiting²⁸. The Counterfeit Report states that China is responsible for 80% world's counterfeiting. Also Thailand, India, and Malaysia has been considered as the "home for piracy" as well as the "world's most violator of intellectual property rights and worst counterfeit offender"²⁹. Therefore, counterfeit goods pose a moral and ethical problem for stakeholders such as companies, retailers, employees, and societies at large. Most importantly, the profit earned from the sale of counterfeit products is associated with criminal and illegal activities. Moreover, online retail has been increasing for the best part of a decade due to a shift in consumer behavior and even more so during the Covid-19 pandemic with high street and luxury brands forced to close their doors to comply with government restrictions.

Naturally with the increase in online retail comes the inevitable risk of potentially purchasing counterfeit goods. Infringers will attempt to sell their counterfeit goods through well-respected and extremely popular online platforms, such as Amazon, eBay and Facebook, as third-party sellers. In

²⁴ Groth and McDaniel, 1993; Wilke and Zaichkowsky, 1999.

²⁵ Bian et al. 2016; Eisend, 2019.

²⁶ Davidson et al. 2017.

²⁷ Betts, 2004.

²⁸ Davidson et al. 2017.

²⁹ Haque et. al 2009.

order to provide more accurate data about the online counterfeit distribution issue, it is needed to point out EUIPO's³⁰ evidence. Accordingly, in 2019, imports of counterfeit and pirated goods reached the amount of 119 billion, representing almost the 5.8% of all goods entering Europe.

The health crisis has offered new great opportunities for distribution of counterfeit goods; thus criminals have adjusted their business models to encounter this new worldwide demand. Online marketplaces appear to have been working hard to combat this seemingly omnipresent counterfeit goods problem. For example, Amazon stated that great efforts have been taken to fight counterfeiting, for example by investigating concerns about counterfeits, launching lawsuits against sellers of fraudulent products, and providing brand registry services to protect sellers' trademarks³¹. Although online marketplaces claim that they have "zero-tolerance" toward counterfeit goods appearing on their platforms, fake items are still as easy to find as are authentic ones³². Also, almost 90% of chargers for Apple products sold on Amazon's U.S. site were reportedly fakes³³. A recent report from the US Government Accountability Office (Congress' nonpartisan investigative division) reveals that 20 out of 47 products purchased from third-party sellers on five major e-commerce sites (including Amazon.com, Walmart.com, eBay.com, Sears Online Marketplace, and Newegg.com) were determined to be counterfeit³⁴.

Copies, counterfeits, replicas, and other knockoffs of luxury brand items abound on the Internet. Scholars have pointed out that price and discounts are important factors for online shopping, thus leading to a perfect argument for purchasing and selling counterfeits online. To go further with this analysis, social media are another important subject dramatically involved in the spread of counterfeit luxury products. Though counterfeit goods have long been a problem for social networking sites, the pandemic has transformed the nature of business, and many luxury brands are now looking to sell their items online. During Covid 19 pandemic, online sales of luxury items such as handbags, shoes, and clothing have soared. Social media networks have fewer registration restrictions and listing fees than e-commerce platforms, counterfeit vendors are flocking to them, making it impossible to manage and measure a problem that is only going to get worse.

Following a recent research, about 56,769 Instagram accounts are involved in counterfeiting activities³⁵. This demonstrates that Instagram is failing to prevent counterfeit vendors from abusing

³⁰ EUROPOL and EUIPO, 2022.

³¹ Morris, 2018.

³² Lorenzetti 2016, Shepard, 2017.

³³ Shepard, 2017.

³⁴ Erickson, 2018.

³⁵ Forte, 2019.

its platform. Moreover, researchers discovered that accounts dedicated to unlawful counterfeiting activities generated roughly 15% of postings for each luxury brand's hashtag. Many counterfeiters utilize hashtags and postings to drive potential purchasers to encrypted chat applications where they can contact them. At this point the question is on why a consumer would knowingly purchase a counterfeit item and give as one possible explanation that the product offers good value for money in light of its true quality or usefulness³⁶. They render this explanation insufficient because why incur the risks associated with illegal copying when legitimate products could be offered at a lower price. Instead they propose the alternative explanation that it is the label and identifying design characteristics (e.g. logo or distinctive fabric patterns) that are of value to consumers, such as the case is for status goods.

Another possibility revolves around the Internet with online users who have encountered difficulty in regulating their excessive internet usage. They have developed compulsive internet use (CIU) and low control over excessive use of social networking services (SNSs) or various applications with obsessive attributes. Extensive research has found that CIU is associated with impulsive buying. Along with logic, past research has confirmed that CIU can increase people's impulsiveness and dissatisfaction with life due to upward comparison, and thus, they may wish to satisfy their materialistic needs. CIU delivers online users' various media (e.g., SNSs, branded apps, and web browsing) to search for counterfeit goods or services with the same brand logo with a huge price difference. As a result, people with high novelty-seeking tendencies may excessively use various media that would later increase the willingness to buy counterfeit products. Analyzing the counterfeiting mechanism was fundamental to dive deeper, in the next chapter, in all the laws and regulations that incur within the luxury market, when the selective distribution faces the online distribution's dark side.

³⁶ Grossman and Shapiro, 1988.

CHAPTER TWO

THE TRADE MARK IN THE COMMUNITY LAW

2.1 EU Trade Mark Law

Trademarks are not protected for their intrinsic value, but only in their relation to an object that is necessarily (at least conceptually) separate from them. Furthermore, at least in principle, the object to which the trademark relates is not protected as such, but may be freely copied. This means that while protection in copyright, patent and industrial design law lies on the object itself – the invention, the work, the design – trademark law is concerned with the manner in which signs are used to designate commercial objects. In other words, protection is not related to what trademarks are, but what they do; it is a functions-based, not an object-based, type of protection. This explains why the issue is much more prominent in the legal discourse in trademark law than in patent or copyright law³⁷.

EU Trademark Law is embodied in two main pieces of legislation, namely the Trademark Directive (TMD), and the Community Trademark Regulation (CTMR). The former seeks to harmonize the national trademark systems of the EU Member States, whereas the latter establishes directly applicable rules for an EU-wide trademark system – the community trademark. Art. 5 TMD establishes the cases where a trademark owner has the right to prevent an unauthorized use of his or her mark – or a sign similar to it – by a third party. It considers different groups of cases³⁸.

According to Art. 5(1) TMD, the proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade: (a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trademark is registered; (b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public; the likelihood of confusion includes the likelihood of association between the sign and the trade mark. In addition, Art. 5(2) TDM provides for an enhanced protection, which Member States may also implement into their national law, but on a voluntary basis. Art. 5(2) thus establishes that any Member State may also provide that the proprietor shall be entitled to prevent all

³⁷ Kur, 2020.

³⁸ Peguera, 2014.

third parties not having his consent from using in the course of trade any sign which is identical with, or similar to, the trade mark in relation to goods or services which are not similar to those for which the trade mark is registered, where the latter has a reputation in the Member State and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.

For a trademark owner to be able to prevent a third-party use in the situations covered by Art 5, some prerequisites emerge from the whole structure and language of Art. 5. Specifically, the third-party use of a sign identical or similar to the trademark must be made (a) in the course of trade, (b) in relation to goods or services, and (c) for the purposes of distinguishing goods or services. As to the first precondition, the Court of Justice of the European Union (CJEU) has held that a use is made in the course of trade when “it takes place in the context of commercial activity with a view to economic advantage and not as a private matter.”³⁹ The second precondition – a use in relation to goods or services – requires that a link is established between the use of the sign and the goods marketed or the services provided by the third party. Regarding the third precondition the CJEU initially linked this type of use to the so-called essential function of the trademark, that is, the trademark as a source indicator of the goods or services. Using a trademark in this way was labeled by the CJEU using the trademark “as a trade mark as such”. Therefore, the implication was that the protection conferred by Art. 5(1) and (2) could only be invoked by the trademark owner when the third-party uses the trademark as a source indicator, that is, “as a mark”. This approach of the CJEU was consistent with the traditional view that the main purpose of a trademark, its “essential function”, is that of being a source indicator⁴⁰.

However, other views have been also maintained: (i) what is relevant is not whether the person using the mark seeks to indicate the origin, but whether the public perceives it so. In this view, thus, a sign is used as a mark when the public may think that with that use, indication is given about the origin of the goods or services. Second, there is also a trademark use when the relevant public perceives that the sign is being used to signal the origin, even where the public knows for a fact that the pretended origin is false. Third, any use which is liable to jeopardize the function of origin constitutes a trademark use, regardless of whether or not the users are confused. Finally, unrelated to the essential function, a trademark use would be any use which is liable to affect any of the functions of a trademark, not just the origin function⁴¹.

³⁹ Case C-206/01, *Arsenal Football Club plc v Matthew Reed*, 2002.

⁴⁰ Peguera, 2014.

⁴¹ Ibid.

By solely focusing on the origin function a number of other functions were neglected that might be more important economically, thus alienating the law from commercial reality. The Court alluded to other functions of trade marks several times, but addressed them directly in the *L'Oréal* judgment, where it stated that the functions of trade marks include: “not only the essential function of the trade mark, which is to guarantee to consumers the origin of the goods or services, but also its other functions, in particular that of guaranteeing the quality of the goods or services in question and those of communication, investment or advertising.”⁴² Particularly, in *L'Oréal v. Bellure*, the dispute concerned marketing of so-called smell-alikes. Inter alia, comparative charts were distributed to retailers that juxtaposed a number of valuable brands to the trademarks under which the respective smell-alikes were sold. Since *L'Oréal*, referring to the functions protected by the double identity clause in addition to the essential function of guaranteeing origin has become a staple element in CJEU decisions addressing the double identity clause.

Most prominent among those decisions was a wave of cases dealing with use of marks as adwords. Two of those cases, *Google France v. Louis Vuitton* and *Interflora v. Marks and Spencer* added further boilerplate modules by delivering definitions of the advertising and the investment functions⁴³: the advertising function pertains to the trademark holder’s use of the mark “for advertising purposes designed to inform and persuade consumers,” and it is infringed if use by a third party under the double identity clause “adversely affects the proprietor’s use of its mark as a factor in sales promotion or as an instrument of commercial strategy.” The investment function concerns use of the mark “by its proprietor to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty,” and it may be jeopardized where use of the mark substantially interferes with that kind of use. As the CJEU admits, that definition largely overlaps with the advertising function as defined in *Google France*, however it is said to be “none the less distinct from the latter. Indeed, when the trade mark is used to acquire or preserve a reputation, not only advertising is employed, but also various commercial techniques.”⁴⁴

Regarding more concretely the assessment of situations in which the additional trademark functions might be detrimentally affected, the CJEU remains remarkably cautious. Concerning keyword advertising, the CJEU declares that the use of a competitor’s mark in order to trigger the display of one’s own advertising as a “sponsored link” is not liable to have an adverse effect on the advertising

⁴² Case C-487/07, *L'Oréal v. Bellure*, 2009.

⁴³ Joined Cases C-236/08 to C-238/08, *Google France v. Louis Vuitton et al.*, 2010.

⁴⁴ Kur, 2020.

function of the trademark, inter alia because the proprietor's mark will most likely show up in a high position in the list of natural search results.

Regarding the investment function, the CJEU points out that it cannot be accepted that the proprietor of a trademark may – in conditions of fair competition that respect the trademark's function as an indication of origin – prevent a competitor from using a sign identical with that trademark in relation to goods or services identical with those for which the mark is registered, if the only consequence of that use is to oblige the proprietor of that trademark to adapt its efforts to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty. Likewise, the fact that that use may prompt some consumers to switch from goods or services bearing that trademark cannot be successfully relied on by the proprietor of the mark. The advertisement and investment functions are therefore without much effect insofar as keyword advertisement is concerned. The accent rather lies on the origin function, which is interpreted rather broadly: pursuant to *Google France* and subsequent case law, an adverse effect on the origin function is found where the ad, while not suggesting the existence of an economic link, is vague to such an extent on the origin of the goods or services at issue that normally informed and reasonably attentive internet users are unable to determine, on the basis of the advertising link and the commercial message attached thereto, whether the advertiser is a third party vis-à-vis the proprietor of the trade mark or, on the contrary, economically linked to that proprietor. The origin function is thus detached to some degree from likelihood of confusion – which would have to be established in a positive manner by the trademark proprietor – to be aligned with the transparency requirement imposed by Article 6(a) of the e-commerce directive (31/2000/EC) on all kinds of commercial communication on the Internet⁴⁵.

2.2 Rights Conferred on the Proprietor of the Trade Mark

EU trade mark law confers exclusive rights on the proprietor of a registered trade mark. It provides for three general types of protection. Article 9(2) EUTMR and Article 10(2) TMD offer protection against confusion under sub (b) and protection against dilution under sub (c). In double identity cases (identical signs used for identical goods or services), sub (a) provides for 'absolute' protection (recital 16 TMD) combining elements of both forms of infringement on the basis of the function theory developed by the Court⁴⁶.

⁴⁵ Ibid.

⁴⁶ Kur and Senfleben, 2017.

- **Protection against confusion**

According to sub (b) of these provisions, the trade mark proprietor enjoys the exclusive right of prohibiting use of a sign that is identical with, or similar to, the trade mark in situations where the sign is used for goods or services which are identical with or similar to the goods or services for which the trade mark is registered, if there exists a likelihood of confusion on the part of the public. In this context, the likelihood of confusion includes the likelihood of association between the sign and the trade mark. If either the marks or the goods or services covered—or both marks and goods/services—are not identical, a conflict is only found if the marks and (unless the prior mark has a reputation) the goods and services are similar, and if because of that a likelihood of confusion arises that also includes a likelihood of association between the mark and the allegedly infringing sign. The similarity of goods and services is assessed, pursuant to the CJEU's statement in *Canon* by taking account of several factors, including inter alia their nature, their end users, and their method of use, and whether they are in competition with each other or are complementary⁴⁷. This does not mean that goods are only similar when the relevant public would believe that the products were manufactured in the same place, but also if they came from different places belonging to the same enterprise or from economically linked enterprises.

The basic elements of the assessment to be made under that clause were spelled out in the early case law of the CJEU. Thus it was held with regard to likelihood of confusion that:

- such risk must be appreciated globally, taking into account all factors relevant to the circumstances of the case;
- the global assessment implies some interdependence between the relevant factors, in particular regarding the similarity of the marks on the one hand and of goods and services on the other, meaning that a lesser degree of similarity between the goods or services may be offset by a greater degree of similarity between the marks, and vice versa;
- furthermore, the more distinctive the earlier mark, the greater is the risk of confusion, meaning that marks with a highly distinctive character, either per se or because of the reputation they possess on the market, enjoy broader protection than marks with a less distinctive character;
- the global appreciation must be undertaken from the perspective of the average consumer of the category of products concerned, who is deemed to be reasonably well-informed and reasonably observant and circumspect, while account should be taken of the fact that he only rarely has the chance to make a direct comparison between the different marks but must place

⁴⁷ Case C-39/97, *Canon v MGM*, 1998.

his trust in the imperfect picture of them that he has kept in his mind, and that the average consumer's level of attention is likely to vary according to the category of goods or services in question;

- finally, the reference to likelihood of association does not mean that the mere association which the public might make between two trade marks is in itself a sufficient ground for concluding that there is a legally relevant likelihood of confusion.

Until now, those basic statements govern the overall assessment of likelihood of confusion, which is otherwise informed by a detailed analysis of the existence and degree of similarity on part of the marks and the goods or services covered⁴⁸.

The infringement test essentially involves a comprehensive assessment of three key elements: the degree of similarity between the signs, the similarity between the goods or services concerned, and the resulting likelihood of confusion. This test closely parallels the relative grounds for refusal provided under Article 8(1)(b) of the EUTMR and Article 5(1)(b) of the TMD. As such, various aspects of the infringement analysis have already been addressed in that context. These include the fundamental principles governing the global assessment of the likelihood of confusion, the relevant factors for evaluating the similarity of goods or services, and the overall comparison of the signs from visual, aural, and conceptual standpoints. The analysis also requires a balancing of the degree of similarity between the signs and goods or services with the distinctive character of the earlier trade mark. In addition, it entails identifying the relevant public and assessing the level of attention that can reasonably be expected from it.

The CJEU has underlined the relevance of these assessment factors in the context of the infringement analysis to be carried out under Article 9(2)(b) EUTMR and Article 10(2)(b) TMD⁴⁹.

- Protection against dilution

According to sub (c) of these provisions, the trade mark proprietor enjoys the exclusive right of prohibiting use of a sign that is identical with, or similar to, the trade mark irrespective of whether it is used in relation to goods or services which are identical with, similar or not similar to those for

⁴⁸ Kur and Senftleben, 2017.

⁴⁹ Ibid.

which the trade mark is registered, where the trade mark has a reputation and where use of the sign—without due cause—takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark. The protection against dilution seeks to preserve the ‘uniqueness’ and ‘magnetism’ of the trade mark. It is protection of the trade mark’s attractiveness and selling power as a product in its own right. The trade mark functions corresponding with this emancipation of the trade mark—from a mere badge of origin to a decisive product feature—are the accessory functions of communication, advertising, and investment.

The resulting infringement test is relatively complex. In order for a trade mark to benefit from protection against dilution, it must first meet the threshold requirement of having a reputation. Once this condition is satisfied, anti-dilution protection extends to both identical and similar signs, and applies across all categories of goods and services, irrespective of whether the allegedly infringing use occurs within a competitive or non-competitive context. The CJEU recognises three distinct forms of infringement under this provision: detriment to the distinctive character of the trade mark (commonly referred to as “blurring”), detriment to the repute of the mark (“tarnishment”), and the taking of unfair advantage of the mark’s distinctive character or reputation (“free-riding”). While both blurring and tarnishment require proof of harm to the trade mark’s function or image, free-riding is conceptualised as a form of unjust enrichment, focusing instead on the unfair benefit gained by the third party from the exploitation of the trade mark’s reputation. Despite these conceptual distinctions, the three forms of infringement operate as alternative bases for liability. Thus, where a claimant is unable to establish actual detriment to the trade mark, it may still be sufficient to demonstrate that the defendant has derived an unfair advantage from its use.

In addition, the infringement test under Article 9(2)(c) EUTMR and Article 10(2)(c) TMD incorporates a negative condition: protection is precluded where the use of the sign can be justified by ‘due cause’. This clause functions as an inherent defence, allowing the alleged infringer to escape liability where a legitimate reason for the unauthorised use exists. Importantly, this open-ended and flexible defence serves as a crucial safeguard, balancing trade mark protection against other competing legal interests, notably the fundamental freedoms of artistic and commercial expression⁵⁰.

⁵⁰ Ibid.

2.2.2 Limitations of Trade Mark Rights

On this basis, Article 14 of the Trade Mark Directive (TMD) and Article 12 of the European Trade Mark Regulation (EUTMR) provide a tool for reconciling the interests of the trade mark owner with competing interests of other traders and the public at large. As explained by the CJEU, these provisions, by limiting the effects of the exclusive rights of the trade mark owner, seek “to reconcile the fundamental interests of trade mark protection with those of free movement of goods and freedom to provide services in the common market in such a way that trade mark rights are able to fulfil their essential role in the system of undistorted competition which the Treaty seeks to establish and maintain”⁵¹. The Court also underlined that, in general, it was the purpose of EU trademark legislation ‘to strike a balance between the interest of the proprietor of a trademark to safeguard its essential function, on the one hand, and the interests of other economic operators in having signs capable of denoting their goods and services, on the other’⁵². Therefore, use of a conflicting sign must be tolerated if, under consideration of all individual circumstances of the case, the detriment caused by prohibiting such use—in the light of countervailing interests, in particular freedom of expression and undistorted competition appears more aggravating than the harm inflicted on the right holder⁵³.

Article 14 TMD and Article 12 EUTMR set out specific limitations to the exclusive rights conferred by a registered trademark, identifying three situations in which the unauthorised use of a protected mark is, in principle, permissible. These include: first, the use of one’s own name or address; second, the use of signs that are descriptive or non-distinctive, particularly where such use relates to characteristics of the goods or services; and third, the referential use of the trade mark to indicate the intended purpose of a product or service, especially where it concerns spare parts or accessories. In each of these cases, however, the permissibility of use is conditional upon compliance with the requirement of honest commercial practices. This means that, even where one of the listed exceptions applies, the manner in which the sign is used must be consistent with fair competition and must not mislead consumers or unduly exploit the trade mark’s reputation. The evaluation of whether use complies with honest practices thus introduces an additional layer of scrutiny focused on the fairness and legitimacy of the use in the context of the market.

Finally, Article 14(3) TMD provides that trademark rights may not be enforced against holders of prior rights of local significance, but only within the geographical area where such local rights are protected. An equivalent provision is found in Article 111(3) EUTMR. Importantly, Member States

⁵¹ Case C-100/02, *Gerolsteiner Brunnen GmbH & Co. v Putsch GmbH*, 2004.

⁵² Case C-85/16, *Levi Strauss & Co*, 2017.

⁵³ *Kur and Senfleben*, 2017.

retain the discretion to allow holders of such prior local rights to oppose the use of an EU trade mark within the specific territory in which their earlier right enjoys protection. This reflects a recognition of the need to balance the unitary character of the EU trade mark with the continued relevance of national rights rooted in local commercial practice.

- Use of one's own name and address

It seems to be a principle of general validity that a person doing business is entitled to identify himself by using his own name and address as distinctive signs. No entrepreneur shall be compelled to 'hide' under a different name, or conceal his whereabouts for the reason that the name or address coincides with a sign that is already protected for someone else. However, that rule is subject to qualifications. The person using the name must candidly disclose his own identity so that consumers do not mistake him for the proprietor of an earlier, identical, or similar mark; furthermore, permission to use one's name or address meets its limits where it only serves as pretext for taking advantage of the senior mark's distinctiveness or reputation.

Historically, some legal systems (like Germany's) required individual traders to operate under their own names for transparency, leading to legal doctrines around the use of personal names in business. This principle influenced Article 6(1)(a) of the 1989 Trade Marks Directive (TMD) and Article 12(1)(a) of the Community Trade Mark Regulation (CTMR), which granted a privilege to use one's own name, originally meant only for natural persons. However, in *Anheuser-Busch*, the CJEU expanded the interpretation to include arbitrarily chosen trade names, rejecting earlier legislative intent⁵⁴. A recent legislative reform corrected this by clarifying that only natural persons using their own personal names benefit from this privilege (Article 14(1)(a) TMD and Article 12(1)(a) EUTMR). This change restricts businesses from relying on this defense when using chosen names that conflict with earlier trade marks. Still, infringement only occurs when the name is used "in relation to goods or services", meaning that simply having a business name does not automatically infringe a trademark. Yet, the space for lawful use of conflicting business names has become very narrow. Trade mark owners, however, typically cannot force the total removal or deregistration of such trade names unless they're actively used in a way that conflicts with trade mark rights. The new rules also end the

⁵⁴ Case C-245/02, *Anheuser-Busch Inc. v Budějovický Budvar, národní podnik*, 2004.

previous flexibility for businesses using similar names due to a shared origin unless other doctrines like "intervening rights" apply⁵⁵.

- **Indistinctive signs and signs used for descriptive purposes**

The limitation of trade mark rights set forth in Article 14(1)(b) TMD and Article 12(1)(b) EUTMR in favour of use made for descriptive purposes is a prime example of what might generally be termed 'fair use' in the context of trade mark law. Its impact in EU law was expounded by the CJEU in *Gerolsteiner Brunnen*⁵⁶. The dispute concerned a claim brought by the proprietor of the German trade mark GERRI, registered inter alia for mineral waters, against a German company marketing mineral water sold with labels on which the words 'KERRY spring' were displayed. The water was manufactured and bottled in county Kerry, Ireland, using water from a spring called 'Kerry spring'. The German courts had found that likelihood of confusion existed in principle, while it was unclear whether the defendant could rely on the limitation set forth in the former Article 6(1)(b) TMD 1989.

Under the former German legal framework, the application of the descriptive use limitation was precluded where a sign was employed in a manner that, for instance through prominent placement on a product label, created the impression of being used as a trade mark. Against this background, the question referred to the CJEU was whether use "as a trade mark" automatically excluded the application of the limitation set out in the former Article 6(1)(b) of the TMD 1989 or whether such use should instead be considered as one factor in assessing whether the use was in accordance with honest practices. The CJEU rejected both propositions. It held that the only condition for the application of Article 6(1)(b) TMD 1989 was that the sign be used as an indication relating to one of the characteristics explicitly listed in the provision—such as geographical origin. Consequently, whether or not the sign was used "as a trademark" could not be determinative. The relevant and sole criterion was whether the use was in accordance with honest practices in industrial or commercial matters.

In applying this test, the CJEU instructed the national court to consider the specific context in which the sign was used, including the shape and labelling of the bottles in question. Nevertheless, the Court emphasised that the mere possibility that the geographical indication 'KERRY' might be perceived

⁵⁵ Kur and Senfleben, 2017.

⁵⁶ Case C-100/02, *Gerolsteiner Brunnen GmbH & Co. v Putsch GmbH*, 2004.

by consumers as a trade mark, or that there existed a likelihood of confusion with the registered mark ‘GERRI’, was not, in itself, sufficient to prohibit the use of the sign. Such factors might be relevant to the assessment of honest practices, but they could not independently justify restricting the defendant’s use under Article 6(1)(b) TMD 1989.

In cases like *Gerolsteiner Brunnen*, the rationale for invoking Article 14(1)(b) TMD or Article 12(1)(b) EUTMR lies in the fact that the protected trademark—GERRI in that instance—bears visual and/or phonetic similarity to a descriptive term or designation, such as KERRY. In some cases, the terms may even be identical.

Another starting point for the invocation of Article 14(1)(b) TMD or Article 12(1)(b) EUTMR can be found if a sign is descriptive or generic in a foreign language which the registrar did not take into account in the context of examining the underlying application for registration. The proprietor of such a trade mark cannot object to products bearing the same term on their label, at least when they are targeted at a clientele that is familiar with the actual meaning of the term in the foreign language concerned.

The CJEU recognizes that the limitations on trade mark rights under Article 14(1)(b) TMD and Article 12(1)(b) EUTMR apply not only to inherently descriptive terms but also to cases where trade marks are used to describe the characteristics of third-party products. However, the Court is cautious in applying these provisions directly and often prefers to resolve such cases by denying trade mark use or relying on the trade mark’s essential function, leaving the precise scope of the descriptive use limitation somewhat unclear⁵⁷.

The situation is different when the characteristics to which the mark refers are instead those of the alleged infringer’s own products. This situation had arisen in *Opel v. Autec*, concerning use of the Opel mark on scale models⁵⁸. Pursuant to Advocate General Ruiz-Jarabo Colomer, the use on toy cars served informational purposes and, thus, could be qualified as use for the purpose of indicating ‘other characteristics’ of the product. Following this line of reasoning, Article 14(1)(b) TMD and Article 12(1)(b) EUTMR would thus be applicable. The CJEU, however, rejected this argument and held that affixing a sign identical to a registered trade mark for motor vehicles onto scale models of those vehicles, with the intent to reproduce the original models faithfully, does not constitute an indication of a characteristic of the scale models themselves. Rather, it is merely part of an accurate representation of the original product. Consequently, the CJEU concluded that such use does not qualify for the descriptive use defence under Article 14(1)(b) TMD and Article 12(1)(b) EUTMR.

⁵⁷ Kur and Senfleben, 2017.

⁵⁸ Case C-48/05, *Adam Opel AG v Autec AG*, 2007.

Whereas the Court's rationale may be seen as questionable both logically and semantically, the judgment in *Opel v Autec* remains authoritative and continues to shape the interpretation of this limitation. As a result, the descriptive use defence has been effectively precluded in comparable cases involving faithful reproductions of trademarked products.

In the course of the trade mark law reform, a small addition was made to Article 14(1)(b) TMD and Article 12(1)(b) EUTMR which may have quite substantial effects. Instead of focusing on the exemption of use of descriptive signs and indications, Article 14(1)(b) TMD and Article 12(1)(b) EUTMR also allow use of 'signs or indications which are not distinctive'. The limitation, thus, covers not only descriptive use but also the use of a sign that is or has become 'indistinctive'. Little has been written about the potential effects of such a rule which appears to be the first of its kind: as far as can be seen, it does not have a forerunner in any of the pre-existing trade mark laws in the EU, nor does it have a clear counterpart in the US or another larger non-EU legislation. The amendment was first proposed in the Study on the Functioning of the European Trade Mark System. One argument brought forward in its support was that in the context of limitations, indistinctive signs and descriptive signs should be treated equally. Admittedly, however, this argument requires further examination.

On the one hand, it is generally accepted that when a sign is inherently descriptive, this descriptive character is not fully extinguished upon registration, even if the mark has acquired distinctiveness through use. The allowance for descriptive use thus reflects a natural and necessary acknowledgment of this residual descriptiveness. Conversely, where a sign is initially indistinctive, the acquisition of distinctiveness through use is typically regarded as fully remedying this deficiency, seemingly obviating the need for specific limitations related to indistinctiveness. However, the relevance of such limitations emerges particularly in cases where a sign that is indistinctive per se—such as the shape of a product—is registered only after being combined with a distinctive element, such as a word mark. Given the increasing challenges faced by businesses in registering shapes as standalone marks, it is anticipated that these cases will become more common. Furthermore, it is important to note that, at least within the EU framework, the possibility of filing disclaimers for indistinctive elements has been eliminated. Against this backdrop, the introduction of specific limitations clarifies that the use of an indistinctive sign forming part of a registered trade mark remains permissible, thereby providing a critical safeguard for third parties and maintaining a balanced approach to trade mark protection.

The registration of a EUTM for inherently indistinctive signs, such as a colour per se or a product shape, presents particular legal challenges. Contrary to a prior tendency in the jurisprudence of the GCEU, the CJEU has clarified that the requirement to establish acquired distinctiveness need not

extend to all Member States. Accordingly, an EUTM may be registered on the basis of acquired distinctiveness demonstrated in only a limited number of Member States. Once registered, the trade mark benefits from unitary protection and enforcement across the entire EU, including territories where the mark has either no or minimal use. In such cases, the new fair use limitation under Article 12(1)(b) EUTMR assumes critical importance. Specifically, if the same or a similar colour or shape is used in Member States where the EUTM's acquired distinctiveness is not recognized by the relevant public—due to absence or limited use—such use must generally be tolerated unless it fails the additional requirement of compliance with honest practices.

A more nuanced application of this limitation arises when a registered trade mark, acquired distinctiveness notwithstanding, loses some of its distinctive character over time, for example as a result of diminished marketing or advertising efforts. Although such marks are not subject to cancellation absent revocation for non-use or genericide, the continuation of full protection may be inconsistent with principles of fair competition. The legal reform thus permits competitors to invoke the limitation by adducing prima facie evidence that the mark, or their use of the sign, currently lacks distinctiveness. Most importantly, even where a trade mark retains a certain level of distinctiveness, the allegedly infringing sign may nonetheless be considered indistinctive in context. This determination depends on various factors, including public perception, the degree of similarity between the signs, the distinctiveness and recognition of the trade mark, and the efforts of the alleged infringer to identify its goods or services as originating from a different source. For instance, a competitor's use of a protected product shape may be permissible if it is accompanied by clearly different branding on the packaging and the shape itself is perceived as indistinctive within the relevant market context.

- **Referential use**

Article 6(1)(c) of the former TMD 1989 and Article 12(1)(c) of the Community Trade Mark Regulation (CTMR) permitted use of a sign 'where it is necessary to indicate the intended purpose of a product or service, in particular as accessories or spare parts'. The provision became topical in a lawsuit involving Gillette and a competitor, L.A. Laboratories, selling razor blades under the trade mark PARASON FLEXOR⁵⁹. On the package of the blades, a sticker was affixed with the text: 'All Parason Flexor and Gillette Sensor handles are compatible with this blade'. Being seized with the

⁵⁹ Case C-228/03, *Gillette Company and Gillette Group Finland Oy v. LA-Laboratories Ltd Oy*, 2005.

case, the Finnish Supreme Court referred to the CJEU several questions, inter alia, how the criterion of ‘necessity’ had to be interpreted, and whether the legal standards were different for referring to intended use as a spare part in comparison with use for other purposes. The CJEU denied the second question, pointing out that use as a spare part or accessory was only listed as an example, while the same standards were also valid for the indication of other purposes. Regarding the first question, the CJEU answered that use of the trade mark was necessary where it ‘in practice constitutes the only means of providing the public with comprehensible and complete information on that intended purpose in order to preserve the undistorted system of competition in the market for that product’.

The *Gillette* decision was widely understood as imposing a limit on the use of elements of a mark that are ‘unnecessary’ in the sense that it is possible to inform the public without them. In essence, this means that, while the use of word marks for indicative purposes is accepted, the use of logos and other pictorial elements is usually considered as infringing. As a rule of thumb, this approach appears acceptable, in particular where use of logos etc gives the impression of a commercial relationship between the proprietor of the mark and the third party. However, it cannot be ruled out that Article 14(1)(c) TMD and Article 12(1)(c) EUTMR cover the use of a logo for the purpose of a legitimate reference, if the information to be conveyed would easily get lost without such visualization⁶⁰.

- **Comparative advertising**

In practice, referential use is most frequently made in the form of comparative advertising. However, comparative advertising is not explicitly reflected in the catalogue of limitations: instead of being listed as a separate category in Article 14(1)(c) TMD and Article 12(1)(c) EUTMR, comparative advertising that does not comply with the requirements of the MCAD is enumerated in Article 10(3)(f) TMD and Article 9(3)(f) EUTMR as constituting a specific modality of infringing use. This legislative technique, however, must not be misunderstood to indicate that comparative advertising is a doubtful case of permissible referential use. By contrast, it is established case law that comparative advertising satisfying all requirements of the MCAD falls outside the scope of the exclusive rights of trade mark owners.

In *O2 v. Hutchison*, the CJEU held that in order to reconcile the exclusive rights conferred by trade mark protection with the permissibility of comparative advertising, the relevant provisions of EU

⁶⁰ Ibid.

trade mark and advertising law must be interpreted harmoniously. Accordingly, the proprietor of a registered trade mark cannot prevent the use of an identical or similar sign in a comparative advertisement, provided that the advertisement complies fully with the conditions set out in Article 3a (1) of Directive 84/450 (the Misleading and Comparative Advertising Directive, or MCAD)⁶¹. This interpretation, which effectively establishes a limitation on trade mark rights in favour of lawful comparative advertising, was reaffirmed in *L'Oréal v. Bellure*⁶². As such, the requirements under the MCAD function as an external balancing tool: where those requirements are fulfilled, the unauthorized use of a trade mark in comparative advertising constitutes legitimate referential use within the meaning of Article 14(1)(c) of the TMD and Article 12(1)(c) of the EUTMR.

This jurisprudential development is further supported by a fundamental rights-based analysis. In *Google France and Google*, Advocate General Poiares Maduro emphasized that the protection of innovation and investment through trade mark rights is not absolute; it must be weighed against other fundamental interests, notably freedom of expression and freedom of commerce. In this context, the reference to the need for “full respect for fundamental rights and freedoms, and in particular the freedom of expression” in Recital 27 TMD and Recital 21 EUTMR underlines that commercial speech—including comparative advertising—must be safeguarded under Articles 14(1)(c) TMD and 12(1)(c) EUTMR. According to the CJEU’s reasoning in *Google France*, detriment to the advertising function of a trade mark arises only where its use in sales promotion or commercial strategy is seriously undermined. Therefore, it follows that legitimate comparative advertising does not constitute trade mark infringement unless it results in gross disparagement of the trade mark. In other words, where the mark is used in a neutral manner, even if the underlying comparative claims may be objectionable in terms of truthfulness, relevance, or verifiability, no trade mark harm occurs. Such faults fall within the scope of unfair competition law or advertising regulations, rather than trade mark law.

This distinction leads to a functional division: while misleading or unverifiable comparative claims are to be assessed under unfair competition law, trade mark infringement arises only in instances of severe reputational harm. However, this interpretive approach arguably conflicts with the legislative intention behind Article 10(3)(f) TMD and Article 9(3)(f) EUTMR, which suggest that any non-compliance with the MCAD in comparative advertising may constitute trade mark infringement. From a pragmatic standpoint, there may be merit in addressing all such instances within a single legal framework, thereby avoiding complex and potentially opaque doctrinal distinctions regarding the

⁶¹ Case (C-533/06), *O2 Holdings Limited, O2 (UK) Limited v Hutchison 3G UK Limited*, 2008.

⁶² Case (C-487/07), *L'Oréal v. Bellure*, 2009.

extent to which trade mark functions are jeopardized. Ultimately, this debate underscores the limited intrinsic legal significance of trade mark functions—particularly the so-called "accessory" functions—as they primarily serve as analytical tools to mediate between trade mark protection and competing legal values. The proper scope of protection must therefore be aligned with overarching principles of fair commercial conduct, undistorted competition, and respect for fundamental rights, as embodied in the framework of the MCAD.

2.2.3 The *Dior v. Copad* Case

One of the controversial issues in the regulation of trademark transactions is the approach to selective distribution networks. To what extent should the trademark proprietor be able to invoke trademark rights to control the activities of licensees and further distribution of branded goods and services? In CJEU jurisprudence on trademark transactions, the issue of selective distribution networks featured prominently in the *Dior v. Copad* case⁶³.

The case concerned a licensing agreement that Dior had concluded with Société industrielle lingerie (SIL) regarding the manufacture and distribution of luxury corsetry goods bearing the Dior trademark. Under this agreement, SIL was bound to refrain from sales to wholesalers, discount stores etc. in order not to endanger the reputation and prestige of the luxury trademark. Nonetheless, SIL sold goods bearing the Dior trademark to Copad, a company operating a discount store business, even though Dior had explicitly refused SIL's request to grant permission for these sales outside its selective distribution network⁶⁴.

In the light of Article 8(2) of the TMD, which provides that the trademark proprietor can invoke trademark rights against a licensee who contravenes a provision of the licensing agreement dealing with duration, the form in which the trademark may be used, the scope of the goods or services falling under the license, the territory in which the trademark may be affixed, or the quality of the goods or services offered by the licensee, this case raised some questions such as whether SIL's breach of contractual obligations amounted to trademark infringement or merely gave rise to contractual liability. Given this enumeration of relevant contractual provisions, the CJEU was asked to give

⁶³ Case C-59/08, *Christian Dior v. Copad International SA*, 2009.

⁶⁴ Senftleben, 2015.

guidance on whether Article 8(2) of the TMD covered the contractual obligation to refrain from sales to discount stores.

In order to respond to the first question, it must be examined first whether the list of provisions in Article 8(2) of the Directive is exhaustive or merely provides guidance. In this respect, it must be noted that that provision contains no adverb, or an expression such as ‘especially’ or ‘in particular’, that would allow a finding that the list simply provides guidance. Consequently, and contrary to what Dior claims, the very wording of Article 8(2) of the Directive shows that the list set out in it is exhaustive.

It must next be established whether a provision such as the one at issue in the main proceedings is one of the provisions expressly mentioned in Article 8(2). In this respect, as regards provisions in a licence agreement concerning ‘the quality of the goods manufactured ... by the licensee’, which that article mentions, it must be recalled that, according to consistent case-law, the essential function of the mark is to guarantee the identity of origin of marked goods or services to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the goods or services from others which have another origin. For the trade mark to be able to fulfil its essential role in the system of undistorted competition which the Treaty seeks to establish and maintain, it must offer a guarantee that all the goods or services bearing it have been manufactured or supplied under the control of a single undertaking which is responsible for their quality.

Therefore, it is precisely where the licensee contravenes provisions in the licence agreement concerning, in particular, the quality of the goods manufactured that Article 8(2) of the Directive enables the proprietor of the trade mark to invoke the rights that the directive grants him. The quality of luxury goods such as the ones at issue in the main proceedings is not just the result of their material characteristics, but also of the allure and prestigious image which bestows on them an aura of luxury. Since luxury goods are high-class goods, the aura of luxury emanating from them is essential in that it enables consumers to distinguish them from similar goods. Therefore, an impairment to that aura of luxury is likely to affect the actual quality of those goods.

Given that context, it must next be examined whether, in the case in the main proceedings, the sale by the licensee of luxury goods to discount stores which are not part of the selective distribution network set up under the licence agreement, may constitute such impairment. In that respect, the Court has already held, contrary to what Copad and the Commission contend, that the characteristics and conditions of a selective distribution system can, in themselves, preserve the quality and ensure the proper use of such goods. Setting up a selective distribution system such as that at issue in the

main proceedings which, according to the terms of the licence agreement between Dior and SIL, seeks to ensure that the goods are displayed in sales outlets in a manner that enhances their value, ‘especially as regards the positioning, advertising, packaging as well as business policy’, contributes, as Copad acknowledges, to the reputation of the goods at issue and therefore to sustaining the aura of luxury surrounding them.

It follows that it is conceivable that the sale of luxury goods by the licensee to third parties that are not part of the selective distribution network might affect the quality itself of those goods, so that, in such circumstances, a contractual provision prohibiting such sale must be considered to be falling within the scope of Article 8(2) of the Directive. It is important to take into consideration, in particular, first, the nature of the luxury goods bearing the trade mark, the volumes sold and whether the licensee sells the goods to discount stores that are not part of the selective distribution network regularly or only occasionally and, secondly, the nature of the goods normally marketed by those discount stores, and the marketing methods normally used in that sector of activity.

The answer to the first question is that Article 8(2) of the Directive is to be interpreted as meaning that the proprietor of a trade mark can invoke the rights conferred by that trade mark against a licensee who contravenes a provision in a licence agreement prohibiting, on grounds of the trade mark’s prestige, sales to discount stores such as the ones at issue in the main proceedings, provided it has been established that that contravention, by reason of the situation in the main proceedings, damages the allure and prestigious image which bestows on them an aura of luxury.

For the second question, the referring court essentially asks the Court to specify the circumstances in which a licensee who puts goods bearing a trade mark on the market in contravention of a provision in a licence agreement prohibiting sale of goods bearing that trade mark to discount stores must be considered to have done so without the consent of the proprietor of the trade mark for the purposes of Article 7(1) of the Directive, which provides that once goods bearing a trade mark have been lawfully placed on the market within the European Union by the trade mark proprietor or with their consent, the proprietor’s exclusive rights are considered exhausted. As a result, they can no longer oppose the further commercialisation of those goods. However, this principle of exhaustion is subject to an important limitation: it does not apply where legitimate reasons exist for the proprietor to object to subsequent use of the mark—most notably where the condition of the goods has been altered or impaired following their release onto the market. Pursuant to Article 65(2) of the Agreement on the European Economic Area (‘the EEA’), in conjunction with Point 4 of Annex XVII, the original

version of Article 7(1) of the Directive was amended for the purposes of the EEA Agreement and the expression 'in the Community' was replaced by the words 'in a Contracting Party'.

Copad and the Commission submit, in this respect, that the consent of the proprietor can be considered not to have been given only if the contravention occurs in respect of one of the provisions in a licence agreement listed in Article 8(2) of the Directive. Dior and the French Government, for their part, consider that any contravention of the licence agreement by the licensee precludes exhaustion of the rights conferred by a trade mark on its proprietor.

It is apparent from the case-law of the Court that, in certain circumstances, exhaustion of that exclusive right occurs when the goods are put on the market by a person with economic links to the proprietor. This is particularly the case where that person is a licensee. In such a situation, the licensor is able to control the quality of the licensee's goods by including in the licence agreement specific provisions requiring the licensee to comply with his instructions and enabling him to check such compliance. According to the Court's case-law, the possibility of control suffices for the trade mark to be able to fulfil its essential function, which is to offer a guarantee that all the goods bearing it have been manufactured under the control of a single undertaking which is responsible for their quality. Consequently, where a licensee puts goods bearing the mark on the market he must, as a rule, be considered to be doing so with the consent of the proprietor of the trade mark, for the purposes of Article 7(1) of the Directive.

In the light of the foregoing, the answer to the second question is that Article 7(1) of the Directive is to be interpreted as meaning that a licensee who puts goods bearing a trade mark on the market in disregard of a provision in a licence agreement does so without the consent of the proprietor of the trade mark where it is established that the provision in question is included in those listed in Article 8(2) of that Directive.

Finally, for the last question, the referring court asks whether, where a licensee who puts luxury goods on the market in contravention of a clause in a licence agreement is deemed to have done so with the consent of the proprietor of the mark, that proprietor can nevertheless rely on that clause to oppose further commercialisation of the goods, on the basis of Article 7(2) of the Directive. The Court has already held that damage done to the reputation of a trademark may, in principle, be a legitimate reason, within the meaning of Article 7(02) of the Directive, allowing the proprietor of the mark to oppose further commercialisation of luxury goods which have been put on the market in the EEA by him or with his consent. Therefore, the answer to the third question is that, where a licensee puts luxury goods on the market in contravention of a provision in the licence agreement, but must

nevertheless be considered to have done so with the consent of the proprietor of the trade mark, the proprietor of the trade mark can rely on such a provision to oppose a resale of those goods on the basis of Article 7(2) of the Directive only if it can be established that, taking into account the particular circumstances of the case, such resale damages the reputation of the trade mark.

CHAPTER THREE

THE EU COMPETITION LAW IN THE LUXURY E-COMMERCE MARKETPLACE

3.1 The Online Selective Distribution in the EU Competition Law

Once made an overview of the EU trade mark law, it is possible to delve into the legal context around the online selective distribution, since there is a strong relationship between trade mark protection and this type of strategy. There are many interlinks between luxury products, trade marks and the online selective distribution. Though luxury brands have opened their businesses to e-commerce, a crucial issue had to be resolved with regards to the control of this type of distribution channel. Since the Internet has been growing at a fast pace, most luxury businesses have been finding themselves lacking the specific know-how and resources to take advantage of it as a distribution channel and for this reason they primarily relied (and still rely) on external operators to carry out their online distribution processes.

Nevertheless, the essence of luxury relies on control, and a selective distribution system is crucial for a luxury brand, be it offline or online. Consequently, digital retailers or “e-tailers” websites should be carefully selected based on several qualitative and quantitative criteria that do not undermine the brand’s image and perceived quality of products sold. Furthermore, even once they are selected, their practices should always be regulated and supervised by the luxury brand in question, so to avoid any possible type of misconduct. For this reason, many luxury brands have, in recent years, undertaken the development and management of their own e-commerce platforms. This strategy allows them to exercise direct control over the distribution and sales processes, thereby safeguarding their brand reputation and the perceived value of their products.

However, not all companies within the luxury sector are prepared to implement such a transition. Many continue to face limitations in terms of resources and technical expertise necessary to establish proprietary online platforms. As a result, several brands have opted for a hybrid approach: while they operate their own official websites, they also make use of established third-party e-commerce platforms—such as Net-a-Porter.com and Yoox.com—to broaden their customer reach and, in some cases, to distribute surplus or discounted merchandise via the online channel. Nevertheless, a threat has always been there and has almost jeopardized the very concept of online selective distribution.

The European Commission had always been somewhat skeptical about all that concerned the free circulation of goods and free competition, and it has been a victory for luxury brands when it was admitted that selective distribution systems are not born with the intent of preserving monopolies, but they are key to the establishment and maintenance of luxury brands' prestige. However, major online platforms such as eBay and Amazon have adopted a divergent stance, actively lobbying European institutions to confine selective distribution systems to brick-and-mortar retail, thereby opposing any restrictions on internet-based distribution⁶⁵. These platforms primarily rely on the strength of their established trade marks to convey reputation and quality assurance to consumers. As such, their use by unauthorized or uncontrolled sellers necessitates stringent oversight. An online selective distribution system provides luxury brands with the necessary framework to maintain such control. The digital sales environment presents specific risks, notably the potential erosion of brand image in the perception of consumers and the possibility of misconduct by online distributors. It is precisely in this context that the CJEU has affirmed that selective distribution may be justified where it is necessary to preserve the quality and integrity of the product.

The constant growth of the online sales market brings many benefits both to sellers and buyers. It makes it easier for new sellers to enter the market because they do not have to incur significant investment costs in their own brick-and-mortar stores and can more effectively compete with other distributors who have been on the market for a long time. From the point of view of customers, the attractiveness of online shopping derives from the fact that it is easy to compare offers from different retailers, both for products from different as well as the same manufacturers. As a result, intra-brand competition (between distributors of the same brand) and inter-brand competition (between competing products) rapidly increases.

A special role in this context is played not only by sales platforms such as Amazon and eBay, but also by price comparison engines and algorithms. Furthermore, authorized retailers using the manufacturer's brand have the possibility of advertising on Google and other search engines. On the one hand, although online sales platforms make it easier to reach the customer, on the other hand a significant disadvantage is they increase the pressure to lower prices⁶⁶. Therefore, in an effort to offset this disadvantage, manufacturers try to influence online sales by imposing various restrictions on their distributors that can serve to ensure high-quality distribution. However, these restrictions can also serve to protect their traditional selling areas and affect the overall price level. Manufacturers use digital tools (including algorithms and software) to monitor retailers' prices in online stores. At the

⁶⁵ Kostecka-Jurczyk D., 2020.

⁶⁶ Ibid.

same time, they strive to stabilize the price level. They also try to maintain minimum prices, especially when distributors lower the recommended price. As a result, they violate competition law rules.

Article 101(1) of the Treaty on the Functioning of the European Union (hereinafter TFEU) prohibits “all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market”. Some practices raise much controversy, as it often is difficult to classify them unambiguously as anticompetitive within the meaning of Article 101 TFEU. Examples include the cases *Coty Germany*, *Asics* and *Guess*, in which manufacturers used various tools to limit online sales to certain distributors, especially third-party platforms such as Amazon and e-Bay. In these cases, the restrictions imposed on distributors were justified by the need to maintain a selective sales system. In a selective distribution system, “approved distributors do not sell or purchase goods from wholesalers or retailers outside the official network” regardless of the geographic scope of the system. This approach is designed to avoid the risk that unauthorized distributors operating outside the selective distribution system could purchase products from members of the selective distribution system and then resell them to other unauthorized distributors in the area where the selective distribution system is in place. From the point of view of competition law, selective sales systems in which the manufacturer, based on certain characteristics selects a distributor and excludes all others from the system, may favour the restriction of competition⁶⁷.

Therefore, it is not surprising that courts and authorities have started in recent decades to explore the tensions arising in the field, increasingly looking at the vertical restraints imposed in the contracts between suppliers and distributors. Partial or complete bans on online sales activities are an example of clauses in distribution agreements which may constitute barriers to the creation of a Digital Single Market and which consequently catch the attention of competition law enforcers. This being premised, many crucial issues remain open: for instance, the scope and the effects of selective distribution systems (increasingly used in response to the growth of online sales), the legitimacy of certain vertical restrictions limiting e-commerce (e.g. pricing restrictions, marketplace bans, restrictions on price comparison tools, exclusions of pure online players) and the potential enforcement of antitrust norms as a remedy⁶⁸.

⁶⁷ Ibid.

⁶⁸ Colangelo and Torti, 2018.

3.2 The EU antitrust framework on selective distribution and marketplace restrictions

It is necessary to look at the EU antitrust framework as applied to selective distribution systems. Specific attention must be paid to the Metro cases, the Vertical Block Exemption Regulation and the recent Commission's Inquiry in the E-commerce Sector. All these legal sources have indeed played a key role in shaping the rules currently applied to selective distribution.

3.2.1 The *Metro* cases

In the EU, the legality of selective distribution agreements was examined in the much-debated Metro cases. In Metro I, the CJEU recognized that price competition is not the exclusive or principal factor in selective distribution systems. In more detail, the scope of Article 101(3) TFEU demonstrates that maintaining workable competition could be reconciled with other legitimate objectives (e.g. the maintenance of a specialist trade capable of providing specific services to high-quality and high-technology products) and that price competition could be restricted – though not entirely – provided that any restriction is essential for achieving those other aims. Otherwise, the selective distribution system would be a restriction of competition by object with the sole purpose of reducing intra-brand price competition. These principles, applied to the facts at issue, meant that the maintenance of a certain price level for specialist retailers and wholesalers was a legitimate goal as long as it ensured the continued existence of this channel of distribution to the benefit of consumer welfare.

The CJEU concluded that selective distribution agreements constitute an aspect of competition compatible with Article 101(1) TFEU if they fulfil three cumulative conditions: (i) the characteristics of the product in question necessitate such a network in order to preserve its quality or to ensure its proper use; (ii) resellers are chosen on the basis of objective criteria of a qualitative nature relating to the technical qualifications of the reseller and his staff and the suitability of his trading premises, laid down uniformly for all potential resellers and not applied in a discriminatory fashion; (iii) the selection criteria do not go beyond what is necessary, in accordance with the principle of proportionality.

Such a framework was endorsed in the subsequent Metro case (Metro II), where the CJEU acknowledged that some limitations in price competition are inherent in any selective distribution system due to lack of competition between specialist and non-specialist dealers, and that the lack of price competition is compensated by competition on quality of service supplied to customers, which is not normally possible in the absence of a reasonable profit margin covering the higher costs such services require. However, in Metro II the judges added a fourth condition: the number of similar

distribution systems in the market must not preclude the possibility of other forms of distribution or result in a rigid price structure. The legal framework established in the *Metro* cases has been subject to considerable academic and institutional criticism. Primarily, the *Metro* test has been viewed as inconsistent with the "more economic approach" advocated by the European Commission in recent decades, as it is perceived to be overly formalistic and insufficiently attuned to assessing the actual or likely effects on market competition. Furthermore, the test has been critiqued for conflating the analysis under Article 101(1) TFEU by weighing pro-competitive and anti-competitive effects within its scope, rather than reserving the assessment of efficiencies and justifications to the exemption criteria under Article 101(3) TFEU, in line with the Commission's established enforcement practice.

In spite of the criticisms raised, the European Commission has consistently applied the principles established in the *Metro* doctrine when assessing the compatibility of selective distribution systems with EU competition law. This approach has been maintained across a wide range of product categories, including but not limited to personal computers, consumer electronics, photographic equipment, and high-end ceramics. In one of those cases, the General Court dealt with luxury cosmetics and perfumes, arguing that the "luxury image" or "aura of luxury" of these products may also justify a selective distribution system. Indeed, as the Court noted, a generalized distribution of such goods, resulting in the manufacturer's incapacity to ensure that they were sold on appropriate terms, would generate a risk of deterioration in product presentation, which could consequently jeopardize their luxury image. Accordingly, any condition or obligation aimed at preserving the luxury image of a brand may be regarded as serving a legitimate objective that promotes qualitative competition and contributes to consumer welfare, thereby offsetting the inherent restrictions on price competition typically associated with selective distribution systems.

Although the *Metro* jurisprudence presents certain conceptual and methodological limitations, it nevertheless constitutes a significant recognition of the pro-competitive dimensions inherent in selective distribution systems, especially with regard to the promotion of inter-brand competition. From this perspective, the *Metro* cases plant a seed that will be further developed by the Vertical Block Exemption Regulation⁶⁹.

⁶⁹ Ibid.

3.2.2 The Block Exemption Regulation

According to the Regulation, qualitative and quantitative selective distribution is exempted as long as the market share of both supplier and buyer does not exceed 30% each, even if combined with other non-hard-core vertical restraints (such as non-compete or exclusive distribution), provided that active selling by the authorized distributors to each other and to end users is not restricted. Furthermore, the exemption applies regardless of both the nature of the product concerned and the nature of the selection criteria. However, where the characteristics of the product do not necessitate selective distribution or do not require the applied criteria, such a distribution system does not generally produce sufficient efficiency-enhancing effects to counterbalance a significant reduction in intra-brand competition, therefore the benefit of the Block Exemption Regulation is likely to be withdrawn. Besides, Article 4(b) of the Regulation explicitly identifies as hardcore restraints any restriction leading to market partitioning by territory or by customer group, except the case of restrictions of sales by the members of a selective distribution system to unauthorized distributors within the territory reserved by the supplier to operate that system. Put differently, the Regulation exempts the restriction of sales to unauthorized distributors located in any territory where selective distribution is currently operated and/or where the supplier does not yet sell the contract products. In practice, if the manufacturer operates selective distribution in one territory while implementing another type of distribution system in another area, then it cannot prohibit sales to unauthorized distributors located in the territory where the goods are sold under a different distribution system. At the same time, the manufacturer can restrict sales to unauthorized dealers located in territories where it does not yet sell the contract product, meaning territories where no official distribution occurs.

Finally, it is worth mentioning Article 4(c) of the Regulation, which condemns the restriction of active or passive sales to end users by members of a selective distribution system operating at the retail level of trade, without prejudice to the possibility of prohibiting a member of the system from operating out of an unauthorized place or establishment.

In brief, the Regulation clearly delineates which restrictions, within the framework of a selective distribution system, may qualify for exemption. These provisions underscore the importance of safeguarding the legitimate interests of manufacturers, who seek to prevent the unauthorized resale of their products outside the designated distribution network. However, it may be argued that suppliers encounter structural difficulties in fully excluding unauthorized distributors, since authorized resellers are, in principle, permitted to sell to all categories of end users, encompassing both professional purchasers and final consumers. Moreover, under established principles of EU

competition law, a manufacturer may not impose restrictions on the customer base of its distributors; once the goods have been lawfully placed on the market, the manufacturer relinquishes control over their subsequent distribution. Such a gap has been purportedly addressed by a recent case on trade mark rights, which may have exacerbated the tension between intellectual property rights (IPRs) and competition law.

In the *Copad* ruling, the CJEU held that, in the context of a selective distribution system, a brand owner can rely on its trademark to prevent: (a) its licensees and authorized distributors from supplying discount stores where such resale would degrade the “aura of luxury” and prestigious image of the goods and (b) the subsequent resale of the products by unauthorized dealers, where such resale would weaken the reputation of the branded goods. The judgment extends the right for manufacturers or brand owners to seek relief directly against unauthorized resellers, hence going beyond what it is currently permitted under EU competition law. In fact, the supplier’s right to prevent, under certain conditions, its authorized dealers from supplying discount stores conflicts with the EU competition law principle that authorized distributors should remain free to sell to all end users. In addition, whereas EU competition law prevents manufacturers from imposing restrictions on their distributors’ customers, the *Copad* case law allows the supplier or brand owner to prevent the unauthorized seller from selling (or advertising) the branded goods when the subsequent commercialization outside the selective distribution system weakens the image of the products.

Given the role of the Internet as a powerful tool to reach a greater number and variety of customers in comparison to traditional sales channels, one may wonder how the law and jurisprudence on selective distribution systems might fit in the context of online sales. In this context, valuable guidance may be derived from the Commission’s Guidelines on Vertical Restraints (hereinafter, the Guidelines), which provide authoritative interpretations regarding the circumstances under which restrictions on the use of the Internet as a marketing channel constitute hardcore restrictions within the meaning of Article 4(b) and (c) of the Vertical Block Exemption Regulation (VBER).

The Guidelines clarify that, within the framework of a selective distribution system, authorized dealers must be permitted to engage in both active and passive sales to all end users, including through online channels. Consequently, a blanket prohibition on the use of the Internet for marketing purposes—or measures that, in practice, amount to such a prohibition—would, in principle, be regarded as a hardcore restriction under EU competition law. The rule applies even if the online channel could raise major concerns for suppliers, since – as they claim – consumers might be more exposed to counterfeits and frauds, which may eventually damage the reputation and image of their

brands. Similarly, the EU competition watchdog considers any obligations which dissuade selected dealers from using the Internet to reach a wider range of customers, by imposing criteria for online sales which are not overall equivalent to those imposed for offline sales, as hardcore restrictions. Of course, the defined criteria for online and offline sales may present some differences, but they should eventually pursue the same goals and achieve comparable results, and they must reflect the different nature of these two distribution modes.

It is interesting to note that selling products online has usually been considered as a form of passive selling, because the use of a website to sell goods allows customers to reach the distributor. According to the Guidelines, a passive sale occurs when the distributor responds to unsolicited requests from individual customers. Passive selling, for instance, consists of general advertisements or promotions reaching customers in other distributors' (exclusive) territories or customer groups, but is a reasonable way to reach customers outside those territories or customer groups. The EU Commission has also identified some examples of hardcore restrictions of passive selling: (a) an agreement that the exclusive distributor shall prevent customers located in another exclusive territory from viewing its website or shall automatically re-route its customers to the manufacturer's or other exclusive distributors' websites; (b) an agreement that the exclusive distributor shall terminate consumers' transactions over the Internet once their credit card data reveal an address that is not within the distributor's exclusive territory; (c) an agreement that the distributor shall limit its proportion of overall sales made over the Internet (volume caps being by definition dissuasive measures) and (d) an agreement that the distributor shall pay a higher price for products intended to be resold by the distributor online than for products intended to be resold offline (dual pricing). In all these circumstances, the agreement cannot generally be exempted in light of the serious restrictions of competition that outweigh any pro-competitive or efficiency justification. This does not mean that the supplier cannot set any requirement for the online sale of those goods which are the subject of the selective distribution system.

The Commission acknowledges that certain limitations on the use of the Internet may be compatible with the Vertical Block Exemption Regulation. In this regard, a supplier is permitted to impose quality-related requirements concerning the online sale of its products, analogous to those that may be imposed on physical retail outlets, catalogue-based sales, or promotional activities more broadly. Accordingly, a manufacturer may lawfully require selected distributors to adhere to specific standards relating to the quality and presentation of their online presence. These may include, inter alia: the creation of a dedicated webpage within an online platform to ensure that the presentation of products avoids confusion with those of competing brands; the obligation to obtain prior approval for any use

of trademarks, logos, colour schemes, banners, or formatting associated with the supplier's products; the inclusion of hyperlinks to the supplier's official website or to other authorized distributors; and compliance with prescribed graphic or branding guidelines. However, certain additional requirements may be deemed disproportionate where they impose excessive burdens on distributors, such as by significantly increasing the cost of entry into the online sales channel, thereby discouraging or effectively restricting online sales in a manner contrary to EU competition law. Among these, creating a website exclusively for the sale of products with professional (e.g. pharmaceutical) advice; providing a payment point reserved for the products at issue; translating the website into foreign languages; and stipulating excessive specifications for the presentation of the product, such as descriptions and compulsory pixel resolution for pictures.

On other grounds, a supplier may also require that its distributors use third-party platforms (such as online marketplaces or auction sites) to distribute the contract products only in accordance with the standards and conditions agreed between the supplier and its distributors for the distributors' use of the Internet. Distributors may also be obliged to have one or more brick-and-mortar shops as a condition of being part of the supplier's network of authorized distributors, and before they can in fact sell the product online. This means that pure online retailers can theoretically be kept outside the network of authorized distributors. Nonetheless, the exclusion of pure online players must ultimately be reconciled with EU case law, whereby qualitative criteria cannot have the object or effect of eliminating modern distribution systems. Therefore, suppliers should carefully examine, on a case by case basis, the restrictions they intend to impose in each situation. Further restrictions may then relate to services to customers. The supplier may impose restrictions on the services to be provided to online customers or restrictions ensuring the efficient operation of the distribution channels within its network. However, these requirements should not unreasonably limit the distributor's use of the Internet to sell nor, ultimately, its access to a greater number and variety of customers.

Many questions, on the whole, still remain unanswered. In particular, the EU competition authority's approach in dealing with the concept and scope of passive sales within the framework of the Regulation sounds unconvincing. Moreover, the Guidelines do not eventually provide thorough and exhaustive clarification on whether the aim of protecting the luxury image of a product can ever justify the use of a selective distribution system in any assessment conducted under Article 101(1) TFEU. With respect to the agreed conditions governing the use of third-party online platforms, it has been observed that the language employed in the Guidelines on Vertical Restraints may be open to divergent interpretations. In particular, there remains a degree of ambiguity as to whether the permissible standards and conditions may be limited solely to qualitative requirements—analogue

to those applicable to the distributor's own website—or whether they may extend to outright prohibitions on the use of certain online sales channels (such as auction websites) or specific third-party platforms (e.g., eBay or Amazon), provided that such restrictions do not, in effect, constitute a de facto ban on all forms of Internet sales⁷⁰.

3.2.3 The E-commerce Sector Inquiry

The E-commerce Sector Inquiry primarily focused on the growing electronic commerce of consumer goods and digital content in the EU. One of the ultimate aims is to ensure better access for consumers and businesses to goods and services via e-commerce across the EU. In order to achieve such a goal, the Commission gathered evidence on competition barriers linked to the growth of e-commerce in the EU and tried to understand the prevalence and rationale of certain business practices. In exploring the main competition concerns, the analysis explicitly referred to selective distribution. In this regard, the Commission first noted that the results of the Sector Inquiry do not require a change to the Commission's approach to qualitative and quantitative selective distribution as reflected in the Regulation. It then argued that selective distribution may facilitate the implementation and monitoring of certain vertical restraints that may lead to competition concerns and require further scrutiny⁷¹.

In this context, the Commission noted that it is common practice for manufacturers to include in their selective distribution agreements a requirement obliging retailers to operate at least one brick-and-mortar retail outlet. Such a provision effectively excludes purely online retailers from participating in the distribution of the relevant goods. On the one hand, these brick-and-mortar requirements are generally aimed at enhancing competition in terms of distribution quality. In particular, manufacturers—especially those operating in the luxury segment—emphasize the importance of physical retail stores in delivering a high-end shopping experience. The availability of in-person customer services at the point of sale is often regarded as a key factor in stimulating consumer demand across various product categories.

However, on the other hand, these requirements may sometimes lead to the exclusion of pure online players from the distribution network without enhancing the quality of distribution or the brand image. Consequently, as the Commission further explained, the requirements to operate at least one brick-and-mortar shop without any apparent link to distribution quality or other potential efficiencies may – where appreciable anticompetitive effects occur – deserve specific individual scrutiny. Further

⁷⁰ Ibid.

⁷¹ Ibid.

important considerations arise from the examination of restrictions imposed on online sales—particularly those involving marketplace limitations or outright platform bans—and the corresponding risks of potential infringements of EU competition law.

From a general perspective, online marketplaces are regarded as a significant distribution channel by numerous online retailers and, to a lesser extent, by certain manufacturers, insofar as they offer access to a broader customer base. In addition, marketplaces typically entail lower entry costs for establishing an online retail presence, facilitate cross-border trade, and contribute to greater price transparency and intensified price competition. Retailers frequently argue that restrictions on the use of marketplaces may result in a stabilization of retail prices and a corresponding decrease in price-based competitive pressure, ultimately benefiting traditional brick-and-mortar retailers and manufacturers who operate proprietary e-commerce platforms. Conversely, several manufacturers express reservations regarding the use of online marketplaces, citing concerns that relate, inter alia, to the protection of brand reputation and image, the heightened risk of distribution of counterfeit goods, the problem of free-riding by unauthorized sellers, and the necessity of ensuring adequate pre-sale and post-sale customer services.

From the results of the Sector Inquiry, it can be concluded that the wide majority of respondent retailers use their own online shop when selling online, while a smaller minority use both the online shop and the marketplace. From these data, the Commission inferred that, while own online shops seem to be the preferred online sales channel for retailers, the use of marketplaces has increased over time. This holds true especially for smaller and medium-sized retailers, which tend to realize a larger proportion of their sales via marketplaces than the larger retailers. The importance of marketplaces as a sales channel also seems to vary depending on the Member States concerned and the product categories scrutinized. This means that marketplace restrictions are primarily implemented in the Member States in which marketplaces have established themselves as an important sales channel. When looking at the manufacturers' side, then, the data reveal that most of them consider sales through retailers' own websites and through brick-and-mortar shops as being potentially beneficial, while only a third of respondent manufacturers view sales via (certain) marketplaces as potentially beneficial, and less than a third reach similar conclusions on promotion via price comparison tools. It is noteworthy that certain manufacturers have increasingly pursued direct-to-consumer strategies by establishing their own online retail platforms and, in some instances, by engaging in direct sales through selected online marketplaces. Concurrently, a considerable number of manufacturers—particularly with respect to premium product lines and newly launched items—have sought to

exercise greater control over their distribution networks by implementing selective distribution systems or by introducing specific distribution criteria applicable to online sales.

Within this context, the findings of the Sector Inquiry confirm a notable increase in the use of vertical restraints—such as marketplace bans and limitations on the use of price comparison tools—which manufacturers generally justify as necessary measures to safeguard brand image and preserve the perceived quality of their products. From the manufacturers’ perspective, the integrity of the brand and the maintenance of high product standards are essential drivers of consumer demand, whereas price competition is viewed as a relatively less significant factor in purchasing decisions, particularly in the luxury and high-end segments.

On the basis of all these considerations, which may give reasons for some limitations on the distribution channels, the Commission eventually concluded that absolute marketplace bans affecting retailers do not generally amount to a de facto prohibition on selling online and do not generally restrict the effective use of the Internet as a sales channel irrespective of the markets concerned. Hence, such bans should not be considered as hardcore restrictions. Of course, similar conclusions also apply to those restrictions requiring the retailer to use marketplaces only in accordance with the quality criteria agreed between the manufacturer and its retailers for the retailer’s use of the Internet. They cannot be considered as hardcore restrictions since these restrictions concern the question of how the distributor can sell the products online and are not intended to restrict where or to whom distributors can sell. In this regard, the approach is in line with the industrial organization theory, according to which, in case of hold-up and free-riding problems, a restraint that limits intra-brand competition is in both manufacturer’s and consumers’ interests: indeed, a low markup may lead to under-investment by retailers in service quality and “showrooming” (i.e. consumers inspecting goods at brick-and-mortar stores but then purchasing online) may reduce retailers’ investment incentives. In the same vein, since price comparison tools differ from marketplaces in several respects, including the fact that no transaction takes place on the price comparison tool’s website, the Commission concluded that absolute price comparison tool bans which are not linked to quality criteria may amount to a hardcore restriction of passive sales. In summary, any assessment of marketplace restrictions should evaluate the relevance of marketplaces as an online sales channel in relation to the specific product and geographic market, the type of restrictions applied (absolute ban or qualitative criteria), as well as the credibility of brand protection considerations and the need for pre- and post-sale advice. The latter two justifications, however, will clearly be less persuasive if the manufacturer has included the marketplace operator as an authorized seller within its selective distribution network or if the manufacturer is itself selling on the marketplace directly to customers. This also means that

any restriction should be proportionate and should not go beyond what is necessary to achieve the legitimate aim.

3.3 The implications of the *Coty* Judgment on the EU competition rules and marketplace bans

According to the Final Report on the E-commerce Sector Inquiry the growth of e-commerce over the last decade had a significant impact on companies' distribution strategies and customer behaviour. The Report, inter alia, points to the importance of marketplaces as online sales channels, in particular for smaller and medium-sized retailers. However, the Report highlights that the importance of marketplaces as an online sales channel differs from one Member State to another to a significant extent (Exhibit 3)⁷².

Proportion of retailers in each Member State that have agreements containing marketplace restrictions

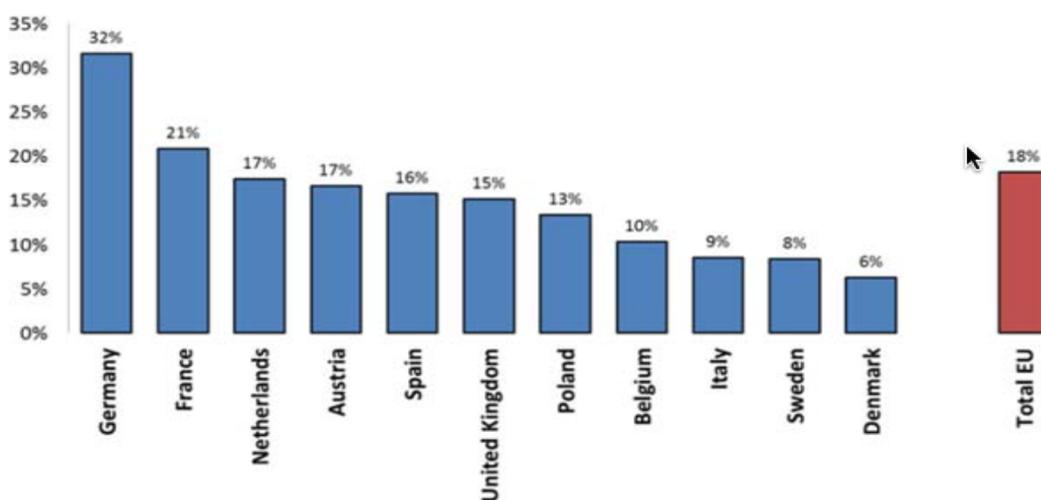


Exhibit 3 – Proportion of retailers in each Member State that have agreements containing marketplace restrictions. Adapted from “Competition policy brief”, EU Commission, 2018.

Marketplace restrictions encountered in the E-commerce Sector Inquiry range from absolute bans to restrictions on selling on marketplaces that do not fulfil certain quality criteria. Restrictions on the use of marketplaces are mostly found in selective distribution agreements, i.e. closed distribution systems where the supplier distributes its product(s) only through authorized retailers which are chosen based on a number of specified criteria. With these market developments, the question of

⁷² European Commission, 2018.

whether contractual restrictions limiting the ability of retailers to sell via online marketplaces ("marketplace bans" or "platform bans") are compatible with EU competition rules has attracted significant attention and led to different interpretations of the applicable EU competition rules in recent years. The *Coty* Judgement provided more clarity and legal certainty to market participants⁷³.

In particular, the request for a preliminary ruling has been submitted in the context of a dispute between a supplier of luxury cosmetics (Coty Germany) and its authorized distributor (Parfümerie Akzente), concerning the prohibition, under the selective distribution agreement, of the use of third-party undertakings for Internet sales. In particular, Parfümerie Akzente distributes Coty goods both at its brick-and-mortar locations and over the Internet: in the latter case, sales are carried out partly through its own online store and partly via the Amazon platform.

According to Coty, the selective distribution system is required in order to support the luxury image of its brands. In this respect, besides the provisions related to brick-and-mortar stores, the selective distribution agreement, as regards Internet sales, provides that the authorized retailer is not permitted to use a different name or to engage a third-party undertaking which has not been authorized. The dispute at issue arose when Parfümerie Akzente refused to sign amendments regarding the Internet sales activity, which, among other things, prohibit the use of a different business name and the recognizable engagement of a third-party undertaking which is not an authorized retailer of Coty Prestige. According to these amendments of the selective distribution contract, the authorized distributor is prohibited from engaging in cooperation with third parties for the operation of its website, where such cooperation is publicly visible. In the context of proceedings initiated by Coty seeking to prevent Parfümerie Akzente from marketing its products via Amazon, the German court of first instance held that the objective of preserving the prestige of a trade mark does not, in itself, justify the establishment of a selective distribution system that restricts competition. Further, according to the national court, the contractual clause at issue constituted a hardcore restriction under Article 4(c) of the Regulation and it did not meet the conditions for an individual exemption, since it has not been shown that the general exclusion of Internet sales via third-party platforms entails efficiency gains of such nature as to offset the disadvantages for competition that result from the clause. Moreover, the court considered unnecessary such a general prohibition, since there were other equally appropriate but less restrictive means, such as the application of specific quality criteria for the third-party platforms.

⁷³ Ibid.

Given the lack of certainty about the legitimacy of such restrictions to protect a 'luxury image', the Oberlandesgericht Frankfurt am Main asked the CJEU to make a preliminary ruling on the following key points: (i) whether selective distribution networks aimed at preserving the image of luxury goods are caught by the prohibition laid down in Article 101(1) TFEU; (ii) whether, in the same context, Article 101(1) precludes a contractual clause which prohibits authorized distributors from using, in a discernible manner, third-party platforms for Internet sales, without consideration of whether there is any actual breach of the legitimate requirements of the manufacturer in terms of quality; (iii and iv) whether Article 4(b) and (c) of the Regulation must be interpreted as meaning that such a third-party platform ban constitutes a restriction by object of the retailer's customer group or of passive sales to end users.

In its response to the first question the CJEU held that a selective distribution system for luxury goods can comply with Article 101(1) TFEU provided that resellers are chosen on the basis of objective criteria of a qualitative nature, laid down uniformly for all potential resellers and not applied in a discriminatory fashion, that the characteristics of the product in question necessitate such a network in order to preserve its quality and ensure its proper use and, finally, that the criteria laid down do not go beyond what is necessary (often referred to as the "Metro-criteria"). The Court refers in this context in particular to the Copad judgment according to which the quality of luxury goods is not just the result of their material characteristics, but encompasses also their "aura of luxury" which is essential in enabling consumers to differentiate them from similar goods and that an impairment to the aura of luxury is likely to affect the actual quality of those goods.

As to its response to the second question, the CJEU applies the Metro-criteria in relation to the specific contractual clause at stake, i.e. the marketplace ban which prohibits authorised retailers in a selective distribution system for luxury goods from using discernible third party platforms for online sales. The CJEU concretely considers whether the marketplace ban is proportionate in the light of the objective pursued, that is to say, whether such a prohibition is appropriate for preserving the luxury image of the goods at stake and whether or not it goes beyond what is necessary to achieve that objective.

The Court holds that the marketplace ban at stake is appropriate for the legitimate objective of preserving the luxury image of the goods concerned, as it provides the supplier from the outset with a guarantee that the goods in question will only be associated with its authorised distributors. It will allow him to verify that the goods will be sold in an environment that corresponds to the qualitative criteria that the supplier has agreed with its authorised distributors. The Court stresses in this context the lack of a direct contractual link to the third party platform that could allow the supplier to require

the third party platform to comply with the quality conditions stipulated in the selective distribution agreements⁷⁴.

The Court also considers the marketplace ban at stake as proportionate as it only limits online sales via discernible third party platforms and does not contain an absolute prohibition to sell online. Authorised distributors remain free to sell via their own websites and any third party platform when the use is not discernible to the consumer. The Court refers to the findings of the E-commerce Sector Inquiry according to which their own online shops remain the main distribution channel operated by over 90% of the distributors surveyed, despite the fact that the importance of online marketplaces is increasing (Exhibit 4).

Proportion of retailers using different sales channels for selling online



Exhibit 4 – Proportion of retailers using different sales channels for selling online. Adapted from “Competition policy brief”, EU Commission, 2018.

The Court concludes that an authorisation to use marketplaces subject to compliance with predefined quality conditions can, in the absence of a contractual relationship between the supplier and the marketplace, not be regarded as being as effective as the marketplace ban. While leaving it ultimately to the referring court, the Court rules that it may be inferred that a platform ban imposed by a supplier of luxury goods is both appropriate and does not go beyond what is necessary to preserve the luxury image of those goods.

⁷⁴ Ibid.

The *Coty* judgment does not exclude that marketplace bans in selective distribution agreements for other product categories such as high-quality or high technology products could also comply with Article 101(1) TFEU, if the Metro-criteria are fulfilled. Whether this is the case would have to be analyzed on a case-by-case basis taking into account the objective pursued by such a restriction and the considerations expressed by the Court in relation to appropriateness and proportionality. Some of the Court's considerations in this regard appear to be equally applicable to those other product categories. The Court does not specifically address the question whether marketplace bans that do not comply with the Metro-criteria, which means that they may fall within the scope of Article 101(1) TFEU, are to be considered restrictions of competition "by object" or by "effect". While Advocate-General Wahl has in his Opinion taken the position that marketplace bans are incapable of being classified as a restriction by object, the Court of Justice has made no explicit statement in this respect.

However, in view of the Court's reasoning that marketplace bans neither have the object of restricting customers to which the goods can be sold within the meaning of Article 4(b) VBER nor of restricting passive sales to end users within the meaning of Article 4(c) VBER it would seem that a marketplace ban cannot be qualified as a "passive sales" or "customer group" restriction of competition "by object" under Article 101 TFEU.

For the third and fourth question, the Court of Justice explains that a marketplace ban such as the one at stake neither restricts the customers to whom authorized distributors can sell nor passive sales to end users. In addition, the Court considers it impossible to circumscribe third party platform customers within the group of online purchasers. The Court also mentions that in the case before the Court distributors were allowed to advertise the products via the internet on third party platforms (e.g. price comparison websites) and use online search engines with the result that customers are usually able to find the online offer of authorized distributors. Based on this, the Court holds that marketplace bans neither amount to a restriction of the customers to whom distributors may sell within the meaning of Article 4(b) VBER nor to a restriction of passive sales to end users by authorized distributors within the meaning of Article 4(c) VBER.

The arguments provided by the Court are valid irrespective of the product category concerned (i.e. luxury goods in the case at hand) and are equally applicable to non-luxury products. Whether a platform ban has the object of restricting the territory into which, or the customers to whom the distributor can sell the products or whether it limits the distributor's passive sales can logically not depend on the nature of the product concerned.

3.3.1 Research question: Is it luxury or not?

Earlier on this thesis it was explained how luxury brands are protected according to the European competition law not only against eventual misconducts happening in the online marketplace, but also, more in general, to safeguard the necessity to distribute their products via accurately selected channels. There were some examples which gave the idea of the treatment reserved to these brands, that are considered extremely fragile within the online context compared to what we can define as “regular brands”. The reasearch question “Is it luxury or not?” has the aim to look at the situation from another perspective, which is companies’one. Brunello Cucinelli, Michael Kors, Dolce & Gabbana and Guess are the firms contacted through their press offices and keypeople to answer to a qualitative questionnaire based on four questions:

1. Do you define your company as a luxury brand or not?
2. What are the characteristics that allow the company to be part of the luxury sector and to maintain an aura of prestige over time?
3. How strong is the need for your company to achieve and/or to maintain the status of luxury brand?
4. What business strategies are implemented to achieve this goal?

As to the first and second question, both Cucinelli and D&G associate themselves as absolute luxury brands, proudly manufacturing made in Italy apparel with the highest quality thanks to the work of small artisans, who craft by hand each piece from clothing to accessories, showing off high responsibility for sustainable matters, competing on a global scale with a small niche and always focusing on consumer needs. When answering to the third question, the Cucinelli press office emphasized that maintaining the luxury status comes from the relationships built over time with the community, clients and artisans and that it is a natural consequence of the company’s dedication to excellence rather than an end in itself. The strategies adopted are a timeless design, limited production to guarantee exclusivity, all this without forgetting the roots, which for Brunello Cucinelli are represented by Solomeo, a small town in the centre of Italy, that is the core of the business. Though Cucinelli and Dolce&Gabbana are representatives of the same luxury category, when answering to the third and fourth questions there were discrepancies in the approach because they have different identities. In fact, D&G’s spokesperson assessed that maintaining the luxury status is crucial, since it is both a promise and a perception which allow for brand desirability and market differentiation. As

to the last question the strategies implemented focus on the creativity and bold designs coming from the Sicilian roots of the stylists, the limited production sold through selected channels, the celebrity partnerships and the iconic events organized.

Whereas, Guess and Michael Kors, when answering to the questionnaire, identified themselves as aspirational lifestyle luxury brands, blending fashion-forward design and global appeal, always keeping an eye on trends, leveraging digitalization through influencers partnerships on social media and pushing on marketing. When looking at aspirational luxury brands, it is possible to notice how the approaches used are more aligned compared to the absolute luxury brands. In fact, when answering to the last questions both Guess and Kors, though using different words, agreed on the importance of such a status for brand equity reasons and to hopefully make an upgrade for the next generations of consumers. In terms of strategies, innovation is the key, together with impactful global campaigns and selective distribution and partnerships.

First of all, the answers indicate that it is incorrect to put all luxury brands in the same basket as they deploy different strategies and have a different consumer appeal according to their category. The luxury pyramid is based on premium brands, aspirational luxury and absolute luxury.

- Premium brands are considered “better quality” than mass market, but not marketed as luxury. Nevertheless, they are worth paying more for quality thanks to the durability, function and quality-to-price ratio. There is quite no exclusivity as it is mass-distributed. The focus is on practicality, performance and trust.
- Aspirational luxury borrows the codes of luxury such as heritage, glamour and exclusivity cues while being more accessible. It still feels exclusive, but it is widely distributed. The focus is on lifestyle and consumer appeal.
- Absolute luxury, as highlighted many times during this work, is at the top of the luxury pyramid, representing exclusivity, craftsmanship, timeless value and prestige. Intentionally unattainable for most consumers with no price visibility, it is only distributed through selective channels such as flagship stores. It is highly symbolic with an emphasis on history and storytelling, furthermore there are no big marketing campaigns, instead it is usually driven by word of mouth among elite circles. The purchase is justified by reasons of social distinction.

In conclusion, the questionnaire was proposed to firms occupying different positions within the luxury pyramid to show how much is it important nowadays staying at the top of this pyramid for companies, considering not only the protection they receive, but also other advantages guaranteed by this status. It was interesting to see the misalignment through their answers as there were both

aspirational and absolute luxury brands that participated to the questionnaire. However, when answering to the question about strategies, all the brands agreed on the exclusive distribution, once again emphasizing the importance of the protection they need from the competition law when navigating the digital context, which as explained by the arguments of the thesis seem to be guaranteed, though not completely, as long as there is a registered trade mark involved and a real threat to fair competition.

CONCLUSION

The luxury industry sits at the crossroads of two powerful forces: the protection of exclusivity, which is central to its legal and economic identity, and the pressures of digitalization, which are transforming the very nature of distribution. At the heart of this tension lies the legal question of how far luxury brands may go in controlling their distribution networks without infringing upon the principles of competition law.

The analysis of European legislation and case law, particularly the landmark *Coty Germany GmbH v. Parfümerie Akzente GmbH* judgment, shows that the law has progressively acknowledged the specificities of the luxury sector. The Court of Justice of the European Union confirmed that restrictions on sales through third-party online marketplaces may be legitimate when they serve to protect the image of luxury goods. This recognition underscores that the value of luxury is not solely material but also symbolic, and that legal protection extends to the aura of exclusivity itself. At the same time, competition law continues to impose boundaries, ensuring that restrictions remain proportionate and do not unduly hinder market access. Selective distribution systems are thus lawful only insofar as they are objectively justified, consistently applied, and necessary for the preservation of brand identity. The jurisprudence illustrates that the law seeks to reconcile two imperatives: safeguarding brand reputation and consumer choice on the one hand, and promoting market integration and fair competition on the other.

From this perspective, the legal framework does not represent a barrier to innovation but rather a structural safeguard that allows luxury brands to embrace digitalization without losing their defining characteristics. Selective distribution emerges as the legal mechanism through which e-commerce can coexist with luxury's need for exclusivity, provided it is designed and enforced in compliance with EU competition law.

Ultimately, the conclusion of this thesis is that the future of luxury e-commerce will depend not only on strategic and managerial adaptation but also on the continued evolution of legal interpretation. The balance struck by European law between exclusivity and competition will remain decisive in shaping the possibilities for luxury brands in the digital marketplace. In this sense, law is not a passive background to business strategy, but an active determinant of how the luxury sector will navigate its transformation in the years ahead. At this point, it is clear that the online distribution can coexist with the luxury core values as long as the latter are widely protected by the European competition law.

Nowadays, unfortunately, the question mark stand still here, on the full protection aspect, which, is still not guaranteed because of some aspects that remain for the regulators to elucidate.

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