

Exception to exhaustion of trademark rights principle enforceable for non-luxury marks

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Introduction

On 5 April 2019 Section 5 of the Barcelona Court of Appeal revoked the 21 March 2018 judgment of the Commercial Court of Barcelona Number 2, which had dismissed all of the claims filed by the owner and licensee of the MUSTELA trademark against its former distributor and various other companies.

The plaintiffs had filed a trademark infringement claim concerning the selective distribution regime established by the trademark owner and, cumulatively, actions for unfair competition against:

- Distribuidora Internacional de Alimentación (DIA);
- Beauty by Dia, SA; and
- Covefarma SL.

Facts

The case concerned Mustela products which had been supplied by Coverfarma (a pharmaceutical wholesaler and the former official supplier of Mustela products) for resale in the Clarel chain of stores (owned by DIA and managed by Beauty by Dia). DIA and Beauty by DIA had acquired the products for resale without meeting the requirements of the selective distribution network and under conditions that seriously undermined the prestige of the MUSTELA trademark.

First-instance decision

The first-instance judge dismissed all of the plaintiffs' claims and accepted the defendants' arguments. The judge concluded that there was no evidence that the conduct attributed to the defendants (ie, the sale of Mustela products via Clarel stores) had been detrimental to the trademark's prestige and reputation.

The plaintiffs filed a writ of appeal against the first-instance judgment before the Barcelona Court of Appeal.

Appeal decision

The Barcelona Court of Appeal partially granted the writ of appeal filed by the plaintiffs and partially accepted the pleadings set out in the writ of claim.

The court discussed the exhaustion of trademark rights principle provided for in Article 36 of the Trademark Act. According to the court, this principle aims to avoid a commercialisation monopoly in favour of trademark owners.

However, the court stated that under EU case law, this doctrine does not apply when the commercialisation of the original products by third parties clouds or harms consumers' perception of the product's business origin or affects the distinctive sign's reputation (ie, the condensing function of reputation or goodwill is affected).

Notably, the Barcelona Court of Appeal stated that EU doctrine and Spanish case law provide for an exception to the exhaustion of trademark rights principle with regard to luxury trademarks. However, this does not rule out the application of this exception to other trademarks in selective

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distribution cases with particular characteristics.

The Barcelona Court of Appeal highlighted that starting from the premise that commercialisation outside a selective distribution network is not *per se* trademark infringement, what must be analysed is whether the conditions that are imposed on the distributors:

- apply to the rest of the resellers outside the network because their non-observance will affect the condensing function of the trademark's goodwill, quality and prestige; or
- are imposed for marketing reasons and will not affect the mark's prestige.

As a result, in order for the exception to apply, a case-by-case analysis must be undertaken to determine whether there are legitimate grounds which have been fulfilled.

In the present case, the Barcelona Court of Appeal considered it proven that the plaintiff had distributed its products through a selective distribution network throughout Europe with certain conditions.

Therefore, the court concluded that the commercialisation of Mustela products issued by the defendants had infringed the conditions of the selective distribution network and that this was legal grounds for not applying the exhaustion of trademark rights principle. The relevant conditions were as follows:

- the lack of a specialised section in which the products were sold, which was not separated from the rest of the establishment;
- the placement of the products with not only products of a lower category, but also products that were unrelated and clearly discredited the trademark (eg. products for the treatment of lice, nail clippers and toilet paper);
- the commercialisation of Mustela products which were in poor condition or expired, as well as scarce rotation and stock levels; and
- the sale of Mustela products online with other products which were not of the same range or quality.

There had even been a consumer complaint confirming that the defendants' sale of Mustela products had harmed the trademark's prestige.

The Barcelona Court of Appeal concluded that the above conditions were sufficient to find that there were legal grounds to avoid enforcing the exhaustion of trademark rights principle, since such conditions negatively affected the mark's prestige and the aura of quality which it gave off following years of investment and protection by its owner.

As a consequence, the court partially granted the writ of appeal filed by the plaintiffs and revoked the Barcelona Commercial Court Number 2 judgment by:

- accepting the pleadings of trademark infringement set out in the writ of claim; and
- sentencing the defendants to pay compensatory damages.

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