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**Italian National Report – Question B**

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**1.- Exhaustion of IP**

Article 5 of the Italian Intellectual Property Code<sup>1</sup> which deals with the exhaustion of intellectual property rights (trademarks, patents and designs) states that:

1. *The exclusive rights attributed by this Code to the owner of an industrial property right are exhausted once the products protected by an industrial property right have been put on the market by the owner or with his consent in the territory of the Country or in the territory of the Member state of the European Union or the European Economic Area.*

2. *This limitation on the powers of the owner does not however apply when there are legitimate grounds for the owner himself to oppose further marketing of the goods, in particular when the condition of the same has been modified or altered after being put on the market.*<sup>2</sup>

3. *The exclusive rights attributed by the patent on a protected variety, on varieties essentially derived from the protected variety when the former is not, in turn, an essentially derived variety, on varieties that are not clearly distinguished from the protected variety and on varieties whose production requires the repeated use of the protected variety, do not extend to acts regarding:*

*a) plant reproduction or multiplication material, whatever its form may be;*

*b) the product of the harvest, including whole plants and their parts when the material or product has been transferred or sold by the same inventor and with his consent in the territory of the Country or of a Member state of the European Union or the European Economic Area, unless it involves acts that imply a new reproduction or multiplication of the protected variety or an exportation of the material of the variety itself that allows for reproducing it in a Country that does not protect that variety, or of the plant species to which it belongs, unless the exported material is for the purpose of final consumption.*<sup>3</sup>

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<sup>1</sup> Legislative Decree No. 30 of 10 February 2005 as amended up to Legislative Decree No. 131 of 13 August 2010.

<sup>2</sup> Before the amendment made by the Legislative Decree No. 131 of 13 August 2010, the limitation stated in this paragraph regarded only trademarks and not all intellectual property rights.

<sup>3</sup> This section of Art. 5 of the Intellectual Property Code will not be dealt with in this report, as it does not relate to the issue of online industry.

With regard to copyright works specific rules are provided by articles 16.<sup>4</sup> and 17<sup>5</sup> of the Italian Copyright Law<sup>6</sup>, respectively on the economic right of communication to the public and distribution.

According to those principles the holder of an intellectual property right is not entitled to prevent the use of such intellectual property right in relation to goods which have been placed on<sup>7</sup> the market in Italy (national exhaustion) or in any EU or EEA member state (community exhaustion) by the owner or with his consent. Whilst the specific right of communication of a copyright work does not exhaust.

Once the intellectual property right is exhausted its owner cannot prevent the free movement of a protected product, and nor can he ban the commercial activities connected with the selling, such as those of advertisements where the trademark of the sold product is used. However it has been considered unlawful the use of a trademark on advertisements not for the selling of the product bearing the trademark, but for services of atonement and maintenance of the product, because those are not services related with the commercialization of the product, but services of a third party. Similarly it cannot be covered under the exhaustion right the use of a trademark for promoting a franchising activity which is not linked to the one of the trademark holder.<sup>8</sup>

These provisions are concerned with setting the parallel importation from one Member state of the EEA to another by a subject who is not the intellectual property owner.

In order to apply the principle of exhaustion two requirements have to be met:

- 1) the products have been placed on the national or Community/EEA market (no international exhaustion);

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<sup>4</sup> Art. 16 of the Copyright Law states: 1. *“The exclusive right of communication to the public of the work by wire or wireless means concerns the use of any means of diffusion at a distance, such as telegraphy, telephony, radio or television broadcasting, and other like means including communication to the public by satellite and cable retransmission, as well as the encrypted transmission by means of specific condition of access; it also includes the making available to the public of a work in such a way that members of the public may access it from a place and at time individually chosen by them.* 2. *“The right referred to in paragraph 1 shall not be exhausted by any act of communication to the public, including the act of making available to the public”.*

<sup>5</sup> Art. 17 of the Copyright Law states : 1. *The exclusive right of distribution concerns the right to market, place in circulation or make available to the public, by whatever means and for whatever purpose, a work or copies thereof, and includes, in addition the exclusive right to introduce into the territory of the European Union, for distribution, copies of a work made in countries that are not members of the European Union;*

2. *The exclusive right of distribution shall not be exhausted within the European Union in respect of the originals or copies of a work, except where the first sale or other transfer of ownership in the European Union is made by the right holder or with his consent;*

3. *What is provided for under paragraph 2, shall not apply to the making available to the public of a work in such a way that members of the public may access it from a place and at a time individually chosen by them, even when the making of copies of the work is permitted;*

4. *For the purposes of exhaustion under paragraph 2, the free delivery of copies of a work for promotional purpose or for teaching or scientific research, when carried out or authorized by the right holder, shall not be deemed to be exercise of the exclusive right of distribution.*

<sup>6</sup> Law 22 April 1941 n. 633.

<sup>7</sup> distributed in the case of a copyright work.

<sup>8</sup> Court of Milan 31 July 2006 (ord), not published.

2) the goods have been placed on the market by the proprietor or with its consent.

According to doctrine a product is placed on the market when it is sold by the owner or with his consent, whilst importing products into the EEA and offering them, but not actually selling them, does not exhaust the intellectual property right of those products.<sup>9</sup>

Article 5 of the Italian Intellectual Property Code and Article 17 of the Copyright law provide intellectual property right exhaustion, applying the principle to trade both within the Italian territory and between members of the EEA.

However given the global nature of trade the issue of international exhaustion in relation to goods placed on the market outside the EEA was raised. The main problem that the Courts had to solve was whether those articles should be understood to mean that the intellectual property right entitles a proprietor to prohibit a third party from using the intellectual property right for goods which have been put on to the market in a state which is not part of the EEA.

Initially part of the doctrine argued that any placing on the market (inside and outside the EEA) would determine the exhaustion of the intellectual property right, according to these authors the international exhaustion would have the advantage of avoiding the disruption of international trade and allow commercial definiteness.<sup>10</sup>

On the other hand another part of the doctrine argued that only the community exhaustion would be in line with the scope of the free movement of goods, and that it would provide the intellectual property owners with higher economic rewards for their investments in research, marketing and distribution.<sup>11</sup>

This debate has been overcome with the ECJ *Silhouette* decision<sup>12</sup> which stated, on the specific matter of trademark exhaustion, that the Trademark Directive neither allowed for international exhaustion nor enabled states within the EEA to adopt their own approach and that only the community wide exhaustion would allow to safeguard the functioning of the community market.

The ECJ has also recognized community exhaustion through the EEA, refusing the international exhaustion, on copyright works.<sup>13</sup>

Indeed now the Italian case law unanimously recognizes the community exhaustion of rights, denying the international exhaustion.<sup>14</sup>

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<sup>9</sup> Galli, C., *L'esaurimento internazionale*, *Il Diritto Industriale* (Dir. ind.) 2008, p. 369; ECJ, case-16/03, *Peak Holding v Axalin - Elinar*, ECR 2004 I-11313.

<sup>10</sup> Auteri, P., *Territorialità del diritto del marchio e circolazione di prodotti originali*, p. 75 ss., (Giuffrè 1976); Muso, A., *Tre recenti provvedimenti giurisprudenziali in tema di importazione parallele*, in *Giur. it.*, 1988, I,2, 365 ss.

<sup>11</sup> Galli, C., *L'esaurimento internazionale*, *Dir. ind.* 2008, p. 369.

<sup>12</sup> ECJ, case 355/96, *Silhouette International Schmied GmbH & Co Kg. V Hartlauer Handelsgesellschaft mbH*, ECR 1998 I 4799.

<sup>13</sup> ECJ, Case 479/04, *Laserdisken ApS v Kulturministeriet*, C-479/04, ECR 2006 I-8089.

<sup>14</sup> Supreme Court (Corte di Cassazione) 18 November 1998, n. 11603; Court of Milan, 23 November 1998, *La Rivista di diritto Industriale* (Riv. Dir. ind.) 2000, II, 33; Court of Firenze, 10 July 2007, *Giurisprudenza annotate di diritto*

The second condition to be met for the exhaustion of an intellectual property right is the placing of goods on the market within the EEA by the right owner or with his consent.

Some difficulties arose, within the doctrine and the case law, in establishing when the placing in the market by third parties was made with the owner's consent.

A typical case of express consent to the placing of goods on the market, is given through licensing agreements, where the intellectual property right exhausts when the licensee places the product on the market.

However there have been debates as to what happens when the licensee places on the market products that violate the territorial, temporary and quantitative limits provided by the licensing agreement.

The doctrine has stated that in such case, the exclusive rights do not exhaust, because the placing on the market of the product was made without the consent of the right owner and the licensee or ex licensee would be considered an infringer of the intellectual property right. However some authors have argued that when the licensee infringes only quantitative limits stated by the agreements (so called overproduction), there is exhaustion of the right.<sup>15</sup>

Another case is represented by the existence of distribution agreements of goods between the intellectual property right owner and the third party, in this case the exhaustion of the right occurs when the right owner supply the goods to the distributor and not when the latter places the goods on the market.

Italian doctrine and case law have stated that the consent by an intellectual property owner could also be implied when it could be inferred from facts and circumstances which unequivocally demonstrate that the proprietor has waived to his right to oppose to the placing of the product on the market within the EEA.

The main question is whether it is possible to imply consent (not expressed) by the intellectual property right owner for the importation and sale of its goods in the EEA, when he places the product only outside of the EEA.

On this matter Italian courts have followed the ECJ rules<sup>16</sup>, recognising that the proprietor's consent may be implied, but it cannot be inferred from the mere silence of the right owner or from the lack of express prohibition of placing the products on the market within the EEA.<sup>17</sup>

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industriale (Giur. ann. dir. ind.), 2007, 313 et seq.; Court of Turin, 4 April 2006 (ord.), Giur. ann. dir. ind., 2006, 732 et seq.; Court of Bologna 19 July 2005 Giur. ann. dir. ind., 2005, 988 et seq.; Court of Rome 23 February 2005, Giur. ann. dir. ind., 2006, 289.

<sup>15</sup> Di Cataldo, V., *Prerogative del marchio, quantità del prodotto e segmentazione del mercato*, Studi in onore di Gerhald Schrieker, Quaderni AIDA, 2005, p. 88 et seq..

<sup>16</sup> ECJ, Joined Cases 414/99 to C 416/99, *Zino Davidoff SA v A&G Imports Ltd; Levi Strauss & Co Ltd v Tesco Store Ltd, Tesco Plc and Costco Wholesale Uk Ltd*.

On the other hand, the consent must be considered implicit when the product was put on the market by an undertaking tied to juridical or economic bonds to the intellectual property owner (for example from undertakings of the same group).

According to art. 5.2 of the intellectual property code, an intellectual property right owner may object to the further marketing of his goods because of the manner in which they are being marketed.

With regard to trademarks this issue mainly concerns when the condition of the goods has changed or been impaired and in particular the issue of relabeling and repackaging.

According to ECJ and Italian case law, it is clear that the relabeling or repackaging of the product in a new external packaging is allowed when it is necessary to enable to market the product in the member state of importation. This problem occurs mainly in the case of parallel importation.

Sometimes the change brought by any repackaging of a product can create the risk of interference with the original condition of the product and therefore may not be allowed by the intellectual property owner when its legitimate interests are not safeguarded.<sup>18</sup>

As to the “necessity” requirement, in principle it is difficult to deny it, in particular when the repackaging relate to pharmaceutical products, considering that usually the exterior of the box of the medicines contains a lot of information, which require a perfect knowledge by the consumer (this is even more so for products imported from countries, whose language is not familiar in Italy).<sup>19</sup>

Problems also arise when a product is distinguished by different trademarks in the original market and in Italy, and the importer replaces the trademark of the product of the first sale market with the with the one used in Italy.

Under the perspective of the national trademark law, this policy conflicts with art. 20.3 of the Intellectual Property Code, which provides that “*a merchant may affix his own trademark to the goods he puts on sale, but may not remove the mark of the producer or merchant from whom he has received the products or goods*”.

However the adoption of different trademarks in each of the Member States for the same goods may give rise to “*artificial portioning of the markets between Member States*”. Therefore according to case law of both the ECJ and Italian Courts, the importer has the right to replace the “original” trademark with the one used in the Member State of import in the event such replacement has to be

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<sup>17</sup> Court of Milan, 13 September 2004, Giur. ann. dir. ind. 2005, 480 et seq.; Court of Turin 18 July 2006, Giur. ann. dir. ind., 2007, 1501.

<sup>18</sup> Court of Milan, 21 February 1977, Giur. ann. dir. ind. 1979, 148 et seq.; Court of Milan 1990, Giur. ann. dir. ind., 1991, 179; Court of Milan 18 May 2004, Giur. ann. dir. ind., 2004, 1112.

<sup>19</sup> ECJ, case 427/93, 429/93 and C-436/93, *Bristol-Myers Squibb and others v Paranova*, ECR 1996 I-3457, Court of Milan, 23 October 2009, Giur. dir. ind., 2009, 1274; Court of Milan 29 September 2009, not published; Court of Milan 6 April 2010, not published.

considered “objectively necessary” (for example, due to the presence on the Italian market of a product bearing an identical or similar trademark to the one registered in the Member State of importation).<sup>20</sup> In this event, it would be difficult to prevent the product in question from being marketed in Italy under the Italian Intellectual Property Code, because the substitution of the trademark satisfies the condition of necessity.

Furthermore the marketing of the goods could be resisted by a trademark proprietor also if the way they are re-marketed damage the reputation of the mark, impairing or changing the “mental” condition of the goods rather than their physical condition. In particular a damage may occur with the advertising of the product when the reseller puts the trademark in a context which might seriously detract from the image which the trademark owner has succeeded in creating around his trademark.<sup>21</sup>

However the Courts have ruled that a trademark proprietor cannot oppose to the use of the trademark just because the retailer advertises the product differently, unless the use of the trademark seriously damages the reputation of the trademark.<sup>22</sup>

Even if the existence of a selective distribution network created by the trademark owner cannot jeopardize the exhaustion principle<sup>23</sup>, when the trademark is used to advertise a genuine product but in such a way as to lead consumers in believing that the retailer is part of a selective distribution network, the trademark owner has the right to oppose to such use of trademark.

As to patented goods, the question is whether the patent owner’s right is exhausted when the product (usually machinery) is placed on the market also for the spare parts of the machinery.<sup>24</sup>

## **2. “Traditional Industry” / “Online industry”**

“*Electronic commerce*” commonly known as “*e-commerce*”, is a type of industry where the buying and selling of products or services is conducted over electronic systems such as the internet and other computer networks. This definition is provided by Law n. 317. 21 June 1986, on the procedure of information in the field of technical standards and the regulations and rules on information society services, as amended by Legislative Decree, 23 November 2000, n. 427, implementing the Directives 98/34CE and 98/48/EC.

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<sup>20</sup> ECJ, case 349/95, *Frits Loendersloot, trading as F. Loendersloot Internationale Expeditie v George Ballantine & Son Ltd and Others*, ECR 1997 I-6227; Court of Milan, 1 April 2010, *Annali Italiani del diritto d’autore (AIDA)* 2011, 719; Court of Milan 16 December 2010, *Giur. dir. ind.*, 2010, 939.

<sup>21</sup> ECJ, case 337/95, *Parfums Christian Dior SA v Evora BV*, ECR 1997 I-6013; Court of Catania, 29 September 2009, *Giur. ann. dir. ind.* 2010, 275.; Court of Rome, 29 October 2012 and Court of Rome 10 January 2013 in *Riv. dir. ind.* II, 2013, 151.

<sup>22</sup> Court of Bologna, 13 October 1999, *Giur. ann. dir. ind.*, 2000, 422.

<sup>23</sup> Court of Trieste, 4 December 2003, *Giur. ann. dir. ind.*, 2005, 224; Court of Trieste 26 March 2004, *Giur. ann. dir. ind.* 2004, 272.

<sup>24</sup> Supreme Court (Corte di Cassazione) 9 June 2010, No. 13892.

Furthermore the same definition on “*e-commerce*” is also provided by the Legislative Decree 9 April 2003, n. 70, implementing the Directive 2000/31/EC so called “*Electronic Commerce Directive*”. The Legislative Decree concerns certain legal aspects of information society services, in particular electronic commerce, in the Internal Market .

A specific form of e-commerce is the *online commerce*, where the buying and selling of the goods and services is made through the internet.

Internet represents the main “electronic means” used in commercial and industrial activities at a distance. Distance buying and selling can be made by e-mail or through the so called “*point and clicking*” method, which allows a user with a mere “click” of a mouse button to enter into a contract.

Unlike traditional commerce, with e-commerce the formation of a contract and commercial relationship occur all in the cyberspace, therefore the negotiation phase is dematerialized. This can cause more problems in understanding the terms of the agreements, in the assessment of the quality of the goods and so the law provides a special protection to consumers, stating in particular the importance of information.

The internet is a powerful tool which reaches a great number and variety of consumers than by more traditional sales methods. The use of a website may have effects that extend beyond the undertaking’s own territory and consumer group.

Moreover recently, the Italian government has implemented the Directive 2011/83/UE <sup>25</sup> regarding distance and off-premises contracts, as those concluded *online*, and those contracts supplying digital content. The law provides, as the directive, a definition of “digital content” as “*means data which are produced and supplied in digital form*”, such as computer programs, applications, games, music and video downloads or texts. Specific rules are provided for online contracts granting particular protection for online shopping.

Furthermore on 31 March 2014, a new Regulation of the Communication Authority (*AGOM*) on the protection of copyright on electronic communications network came into force. The Regulation provides the definition of “digital works” as those “*works or parts of works, as those with a sound character, audiovisual, photography, gaming, publishing and literature, including the application of programs and operating systems for computers protected by the Copyright Law and available on electronic communications networks*”.

### **3. Exhaustion of IP rights in “on-line industry”**

#### **3.1. On-line exhaustion of intellectual property rights**

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<sup>25</sup> Legislative decree 21 February 2014, No. 21.

As mentioned, according to the exhaustion principle, the exclusive rights attributed to the owner of an industrial property right are exhausted once the products protected by the industrial property right have been put on the market by the owner or with his consent in the territory of Italy or in the territory of the Member state of the European Union (hereinafter EU) or the European Economic Area (hereinafter EEA).

In the case of traditional commerce, identifying whether the goods are placed in the Italian market or in a EU or EEA country does not generally create difficulties, which instead arise when the products are sold and bought online.

There is no specific legislation that defines the exhaustion of an intellectual property right in the online industry nor any relevant case law.

The main issue concerns whether for a product to be put on the Italian, EU or EEA market and the related intellectual property to be exhausted, it is sufficient that the website of the right holder, for sale in third States (outside of the EU and EEA), is accessible from Italy or a territory of the EU or EEA.

The Italian Courts, even if not expressly on the topic of exhaustion, have ruled that the mere fact that a website is accessible from the territory of Italy, EU or EEA it is not a sufficient basis to conclude that the offers for sell displayed there, are targeted at consumers in that territory, requiring the website to be expressly target to the consumer of Italy or the EU or EEA, for example by providing the offer to sale in Italian and showing the prices in Euro and not the third states currency.<sup>26</sup>

Moreover, as explained on paragraph 1, to have the exhaustion of an intellectual property right, it is not satisfactory a mere offer to sell. Thus, it is not sufficient that a website, selling products located in a territory outside the EU or EEA, it is target to consumers of Italy or a state member of EU or EEA, because a mere offer to sell does not not exhaust the intellectual property right, but there must be a proper sale of the goods.<sup>27</sup>

The problem is whether exhaustion occurs if a consumer visits the web site of an undertaking or its distributors, which are located outside the EU and EEA territory, and contact the undertaking or distributor and if such contact leads to a sale. The main concern is if by selling its goods to an Italian consumer or of a member state of EU or EEA, the intellectual property owner gives its

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<sup>26</sup>Court of Verona, 14 July 1999 Giur. ann, dir. ind. 1999, 1256; Court of Rome 2 February 2000, Giur. ann, dir. ind, 2000, 778; Court of Rome 9 March 2000, Court of Modena, 1 August 2000, Giurisprudenza di merito (Giur. merito), 2001, 329, Court of Turin 26 October 2007, Giur. ann, dir. ind, 2007, 1068. These decisions regard the problem of the use of a trademark on internet and whether such use constitutes an infringement and the issue of defying the Courts jurisdiction in such cases, but the principles stated in this case law can be applied also to the question of the exhaustion of intellectual property rights in the on-line industry.

<sup>27</sup> To the contrary Iacopo Pietro Cimino, *Reti affiliate di distribuzione e commercio on line*, Diritto dell'Internet e delle nuove tecnologie telematiche, Cedam, 2009.



consent to the placement of its products in such states, regardless of whether it provides also the delivery of the sold goods or the consumer needs to contact an international carrier for the delivery. A solution to that question can be found by applying the concepts and definition of active and passive sale, given by Regulation No. 330/2010 (Block Exemption Regulation) and the relevant European Commission Guidelines.

Paragraph 56 of the Guidelines states that the criteria imposed for online sales should pursue the same objectives and achieve comparable results to those imposed for offline sales and that the difference between the criteria must be justified by the different nature of these two distribution modes.

The Regulation distinguishes the ‘active’ sales from the ‘passive’ sale. The ‘active’ sale is defined as “*actively approaching individual customers by for instance direct mail, including the sending of unsolicited e-mails, or visits; or actively approaching a specific customer group or customers in a specific territory through advertisement in media, on the internet or other promotions specifically targeted at that customer group or targeted at customers in that territory*”.

‘Passive’ sales means “*responding to unsolicited requests from individual customers including delivery of goods or services to such customers*”.<sup>28</sup>

Taking into account these two definitions it may be maintained that only when the online sale made through the website of an undertaking or its distributors, which are located outside the EU and EEA territory, is a consequence of a so called “active sale” of the undertaking, the intellectual property rights on the sold goods exhaust.

If it were otherwise, operators that use e-commerce by offering for sale, on an on-line market place targeted at consumers within the EU or EEA, intellectual property right goods located in a third State, which it is possible to view on the screen and to order via that marketplace, would have no obligation to comply with the Italian and more in general EU intellectual property rules. Such a situation would have an impact on the effectiveness of those rules.

On the other hand exhaustion does not occur in the case of a passive sale, because in that case the undertaking does not actively approach consumers selling them its products located outside the EU and EEA states. Indeed, it is essential that the proprietor of an intellectual property right registered in a Member State can control the first placing of goods protected by an industrial property right on the market in the EEA.<sup>29</sup>

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<sup>28</sup> Paragraph 51 of Guidelines on Regulation No.330/2010.

<sup>29</sup>ECJ joined cases C-414/99 to 416/99 *Zino Davidoff and Levi Strauss* ECR 2001I-8691; ECJ case 16/03, *Peak Holding AB v Axolin-Elinor AB*, ECR 2004 I-11313; ECJ Case 324/08, *Makro Zelfbedieningsgroothandel CV, Metro Cash & Carry BV and Remo Zaandam BV v Diesel SpA*, ECR 2004 I-11313.

However, when from the selling follows the shipping of the product into a EU or EEA states, the delivery is equivalent to a placement of the good in the EU or EEA territory, which exhaust the intellectual property right, irrespectively whether there has been an “*active*” or “*passive*” sale.

### **3.2 On-line exhaustion of copyright works**

Taking into account the exhaustion of a copyright work distributed online, a doctrine, on the basis of the Directive 01/29/EC (articles 2, 3.2, consideration n. 29.d) and art.16.2 Copyright Law, argued that selling a work online does not exhaust the copyright on the work, because making it available online is not an act of distribution, but the right of the copyright owner to communicate the work to the public.<sup>30</sup>

Contrary, other authors maintained that also the sale of the work online is an act of distribution to which is applied the principles of national and community exhaustion.<sup>31</sup>

Recently, the ECJ in the Oracle Case<sup>32</sup> held, interpreting art. 4.2 of Directive 2009/24/EC on the legal protection of computer programs, that the downloading from the internet of a copy of a computer program and the entering into a user license agreement relating to that copy amount to a ‘sale of a copy’ of that program. Thus, consequentially the copyright holder’s distribution right is exhausted in respect of a copy of software (such that the copyright holder can no longer oppose the resale of a “used” software program).

The Court stated that the principle of exhaustion of the right of distribution applies not only where the copyright holder markets copies of his computer programs on a material medium (such as CD-ROM or DVD), but also where he distributes them by means of a download from his website.

ECJ based its finding by the rational that on-line transmission is the “equivalent” of the supply of a tangible medium.

The Court, however specified that in order for a resale of “used” software not to infringe the copyright holder’s right of reproduction, the original user must render its copy unusable at the time of the resale.

Anyway, as pointed out by the ECJ in the Oracle Case, it should be mentioned that the Directive 2009/24 concerns specifically the legal protection of computer programs and therefore constitutes a *lex specialis* in relation to Directive 2001/29.

There have been no Italian cases decided after the Oracle Case, but it is likely that Italian Judges will follow the rule stated by the ECJ.

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<sup>30</sup>Guglielmetti, G., *Il diritto di comunicazione e messa a disposizione del pubblico*, AIDA 2010, p. 148; Romano, R., *Il diritto di riproduzione nel contesto della convergenza dei media*, AIDA 2010, p. 166.

<sup>31</sup>Sarti, D., *Diritti esclusivi e circolazione dei beni*, Giuffrè 1996, p. 379; Gabino, A.M., *Le trasmissioni telematiche del bene immateriale*, AIDA 97, p. 507.

<sup>32</sup> ECJ case 128/11, *UsedSoft GmbH v Oracle International Corp*, not yet published.

#### **4.- IP rights and on-line industry: infringement and remedies**

##### **4.1 On-line infringement of intellectual property rights**

The Italian law introduces no new criterion to determine the existence of an infringement of intellectual property rights in the online industry, therefore the general rules provided by the Intellectual Property Code shall apply.

The rules set out in Article 20 (on trademarks), 41 (on designs), 66 (on patents) of the Intellectual Property Code confers on the proprietor of an intellectual property right, the exclusive rights entitling him to prevent any third party from importing protected goods, offering the goods, advertising them, putting them on the market or stocking them for those purposes, whilst Article 5 of the Intellectual Property Code have laid down an exception to those rules, providing, as said, that the proprietor's rights are exhausted when the goods have been placed on the market in Italy, EU, EEA by the proprietor himself or with his consent.

The Intellectual Property Code states that also the offer for sale of goods and services, bearing a trademark, protected as a design or patent, constitute an act of infringement<sup>33</sup>, whilst the mere offer to sell does not exhaust the intellectual property rights.

Such rules apply both to traditional industry and the on-line industry.

No specific problems arise when the website selling online goods protected by intellectual property rights is located in Italy, EU or EEA country, since the Italian law provides the community exhaustion. Indeed, in this case, an on-line sale would be the same as a traditional sale and the issues connected would be solved according to the same rules and principles applied to the traditional industry.

The main difficulties of online infringement is to determine whether the offer for sale or advertisement, by means of an online marketplace accessible to Italian consumers, made by a third undertaking, of goods indented by the proprietor of the right for sale only in third States (outside the EU and EEA, where the exhaustion principle is applied), constitutes infringement.

And consequentially, whether, for the proprietor of an intellectual property right to be able to prevent, under the rules set out in the Intellectual Property Code, the offer for sale or advertisement, on an online marketplace, of goods protected by an intellectual property right, which have not previously been put on the market in Italy, EU or EEA, it is sufficient that the offer for sale, or advertisement, made on the website, is accessible to consumers located in the territory covered by the intellectual property right.

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<sup>33</sup> Article 20.2 on trademarks, article 41.2 on designs, article 66.2 on patents. It must be underlined that the latter does not expressly provide that the patent owner has the exclusive right to prohibit third parties to "offer" the patented product without his consent, however doctrine and case law unanimously recognise that such act infringes the patent owner's exclusive right.

Italian Courts have held that the accessibility of a website by Italian consumers; website which sells goods that the proprietor of the trademark intended for sale in third states, does not infringe the intellectual property rights owned in Italy. Infringement only occurs when it is clear that the offer for sale through the third undertaking's website or on-line advertising of a product which is protected by an intellectual property right, located in a third State is targeted to consumers in the territory covered by the intellectual property right, and the mere fact that a website is accessible from the territory covered by the intellectual property right is not a sufficient basis for concluding that the offers for sale displayed there are targeted to consumers in that territory<sup>34</sup>.

It is interesting to mention a recent case where the Italian Judges stated that just using the English language on the website cannot be an indicia that the website is not targeted to the Italian public because *“the use of the English language for a website that particularly addresses its products to young people or in any case to a public that is becoming increasingly familiar with the English language—and especially so for online purchases—does not indicate in itself a limited scope of activity within the boundaries of an English-speaking public”*.

The Court also added that even prices in dollars and US sizing conventions do not imply that the website is targeted just to USA consumers because *“the public is ever more familiar (due to more frequent travel to the United States and the growth of online commerce) with the US market and “American” pricing and sizes”*.<sup>35</sup>

After considering the specific problem of on-line infringement in relation to the principle of exhaustion, it should be mentioned that the online industry has created new forms of trademark infringement. Indeed the use of a trademark on the web as domain names, meta-tags, and key words, raises the issue for trademark infringement. Article 22 of the Intellectual Property Code, expressly provides that it is prohibited to adopt as a domain name a sign that is identical with or similar to another trademark, where such use creates a likelihood of confusion on the part of the public or a likelihood of association between the two signs, or in case of a trademark with reputation, for obtaining an undue advantage from the distinctive character or reputation of the mark or causes harm to the same. Furthermore this provision applies the protection, initially granted only to trademarks, to all distinctive signs, including domain names, so-called unitary principle (*principio di unitarietà*).

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<sup>34</sup> Court of Verona, 14 July 1999, Riv. dir. ind., 2000, II, 162; Court of Rome 2 February 2000, Giurisprudenza Italiana (Giur. it.), 2000, 1677; Court of Rome 9 March 2000, Giur. it., 2000, 1677; Court of Modena 1 August 2000, Giur. merito, 2001, 329; Court of Milan, 16 March 2009, AIDA, 2010, 844; Court of Turin 1 July 2011, database DeJure; Court of Appeal of Milan, 4 May 2012, not published; this principle is been also recognized by the ECJ, case 324/09, *L’Oreal and Others v Ebay*, ECR 2011 I-6011.

<sup>35</sup> Court of Milan, 05 February 2013, database DartsIp.

Even if no specific provision prohibits the use of meta-tags or key words which are identical or similar to a registered trademark, the case law has applied Article 20 of the Intellectual Property Code, which states that there is trademark infringement, also in the case of such unlawful and unjustified use of the meta-tags and key words. Therefore, it infringes a registered trademark any meta-tag and key word which is identical to the trademark and is used for goods or services which are identical for which the trademark is registered; any meta-tag and key word identical or similar to the registered trademark and which causes a likelihood of confusion by the consumer or association of the signs; the use of meta-tags and key words identical or similar to the registered trademark with a reputation where the use of that sign without due cause takes unfair advantage of, or is detrimental to the distinctive character or the reputation of the trademark.

Courts have recognised that even a website of an undertaking selling on-line genuine goods infringes a trademark when the use by the third party of the sign which is identical to the trademark, as a keyword or meta-tag, is liable to create the impression that there is a material link in the course of trade between the goods or services in question and the proprietor of the trade mark. Because of the essential function of a trade mark, which, in the area of electronic commerce, consists in particular, in enabling internet users browsing the ads displayed in response to a search relating to a specific trademark to distinguish the goods or services of the proprietor of that trademark from those which have a different origin, that proprietor must be entitled to prohibit the display of third-party meta-tags, key words which internet users may erroneously perceive as emanating from that proprietor.<sup>36</sup>

No specific remedies are provided by the law to online infringements, therefore Courts apply the measure and civil sanction provided under Articles 124, 125 and 126 of the Intellectual Property Code to traditional industry also to online infringements: injunction, removal or destruction of all the items constituting the infringement, seizure, compensation for damages, restitution of profits of the author of the infringement, publication of the judgment.

#### **4.2. On-line copyright infringements**

In the context of infringement of copyright in the on-line industry, the economic right of distribution to the public is the one which is principally involved.

Following the advent of the Internet, debated ensued, due to its world-wide accessibility, as to whether making protected works available on internet without authorization would infringe the right of distribution to the public, where such right is not exhausted.

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<sup>36</sup> Court of Milan, 1 July 2010, not published; Court of Milan, 19 October 2010, not published.

Under Article 17 of the Copyright Law an exclusive right is conferred on authors to authorize or prohibit any form of distribution to the public by sale or otherwise of the original of their works or copies thereof.

Distribution to the public is characterized by a series of acts going, at the very least, from the conclusion of a sales contract to the performance thereof by delivery to a member of the public. Such act may also be made through the downloading of digital copies from the internet, which if made without the necessary authorization account as copyright infringement.

When on-line infringement regards digital works and is carried out by means of downloading, consequentially to the development of new file sharing system, it is often difficult to identify the infringer and to enforce remedies.

The Italian Copyright Law does not provide an effective protection against infringement of digital copyright works. Indeed there is no express provision regarding new forms of infringement of copyright works such as linking, peer-to-peer file sharing (which includes the BitTorrent file sharing), streaming. Therefore if an infringement of a copyrighted work occurs on the web, the general rules provided by the Copyright Law to the traditional industry shall apply. Specific rules are only provided regarding software protection<sup>37</sup> and the use of digital rights managements<sup>38</sup>.

The legal uncertainty regarding the nature and level of protection of digital works should be overcome with the introduction of specific rules and consequentially the amendment of the Italian Copyright Law.

A first step in that direction may be seen in the recent adoption of the Regulation on the protection of Copyrighted work on the Internet, adopted by The Communications Authority (*AGCOM*)<sup>39</sup> which provide a specific procedure to protect digital copyright works against on-line infringement. Such procedure, however, does not involve the judicial authority, but it is carried out before The Communications Authority (*AGCOM*) an administrative authority:

#### **5.- Conclusion and recommendations**

The on-line industry through the use of internet, reaches a greater number and variety of consumers than the more traditional sales methods. The use of a website may have effects that extend beyond the undertaking's own territory and consumer group.

The rules set out by the Intellectual Property Code and Copyright Law confer on the proprietor of an intellectual property right, the exclusive rights entitling him to prevent any third party from importing protected goods, offering the goods, or putting them on the market or stocking them for those purposes, whilst Article 5 of the Intellectual Property Code and art. 17.2 of the Copyright Law

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<sup>37</sup> Art. 64 bis; 64 ter; 64 quater of the Copyright law.

<sup>38</sup> Art. 102 quater ; 102 quinquies of the Copyright law.

<sup>39</sup> Deliberation 12 December 2013, No. 680/13.

have laid down an exception to that rule, providing that the proprietor's rights are exhausted where the goods have been put on the market in Italy, EU, EEA by the proprietor himself or with his consent.

Regarding the online exhaustion of the intellectual property rights, the problem is whether the exhaustion occurs if a consumer visits the web site of an undertaking or its distributors, which are located outside the EU and EEA territory, and contact the undertaking or distributor and if such contact leads to a sale.

The main concern is if by selling its goods on-line to a consumer in Italy or in a member state of EU or EEA, the intellectual property owner gives its consent to the placement of its products in those States, regardless of whether it provides also the delivery of the purchased goods or if the consumer needs to contact an international carrier for the delivery.

As previously mentioned, a solution to such question could be found by applying the concepts and definition of both active and passive sales, given by the Regulation 330/2010 (Block Exemption Regulation) and the relevant European Commission Guidelines.

Only when the online sale made through the website of an undertaking or its distributors, which are located outside the EU and EEA territory, is a consequence of a so called "active sale" of the undertaking, the intellectual properties rights on the sold goods exhaust, indeed in such case the active approaching of customers by the right owner must be interpreted as its implied consent to the placement of the goods.

On the other hand no exhaustion occurs in the case of a passive sale, because in such case the undertaking does not actively approach consumers selling them its products located outside the EU and EEA states. Indeed, it is essential that the proprietor of an intellectual property can control the first placing of goods on the market in the EEA.

As to the specific hypothesis of the exhaustion of copyrighted works, which often are in non tangible forms, the traditional principle of exhaustion found some limits, due to the difficulty to define whether the downloading of a copy should amount to an act of distribution or an act of communication, which does not exhaust the rights of the copyright owner.

The recent ECJ decision helped by clarifying that, regarding computer programs, the principle of exhaustion of the distribution right applies not only where the copyright holder distributed his work by means of material medium but also by downloads from his website.

Regarding the online infringement, the issue concerns whether the offer for sale or advertisement, by means of an online marketplace accessible by Italian consumers, of goods protected by an intellectual property right intended, by the proprietor of the mark, for sale in third States (outside the EU and EEA, where it is applied the exhaustion principle), constitutes infringement.

Italian Judges unanimously hold that the mere fact that a website is accessible from the territory covered by the intellectual property right is not a sufficient bases for concluding that the offers for sale or advertisements displayed there are targeted at consumers in that territory.

Otherwise the fact that an on-line marketplace is accessible from the Italian territory were sufficient for the advertisements or offer for sale displayed there to infringe the intellectual property right in Italy. Websites and on-line advertisements which, although obviously targeted solely at consumers in third States and nevertheless technically accessible from the Italian territory, would wrongly be subject to Italian law.

It must be assessed on a case-by-case basis whether there are any relevant factors on the basis of which it may be concluded that an offer for sale or advertisement displayed on an on-line marketplace accessible from the territory covered by the trade mark, is targeted at consumers in that territory.

When the on-line infringement regards intangible works (usually copyrighted) and those are downloaded without the necessary authorization, following the development of a new file sharing system, it is often difficult to identify the infringer and to enforce the remedies provided by law.

Such difficulties are also due to the lack of effective legislation regarding on-line infringements of digital copyright works.

Therefore it would be advisable to amend the Copyright Law to overcome the current legal uncertainty regarding the nature and level of protection of digital works. This amendment would allow the copyright owner to effectively enforce its exclusive rights before a Courts of justice and not just through on administrative procedure.

In conclusion, whilst the protection of trademarks, designs and patents on the on-line industry under the Intellectual Property Code rules is adequate and the principles of exhaustion and infringement of the traditional industry are mainly effective to solve problems which arise also in the on-line industry; the Copyright Law is inadequate to face and regulate the new increasing phenomenon of counterfeiting and piracy of digital works in the on-line industry.