

Report Q203

in the name of the Italian Group
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Damages for infringement, counterfeiting and piracy of Trademarks

Questions

1) The state of the substantive law in the countries

- 1) *The Groups are invited to indicate, in summary form, if their national law distinguishes between different kinds of infringement, counterfeiting and piracy of trademarks and what the conditions are for liability for those different kinds of infringement, counterfeiting and piracy.*

The Groups are also invited to indicate if these various forms of the violation of trademark rights have an impact on the monetary compensation to be provided to the trademark owner.

Italian law provides for a common general rule on infringement and conversely does not distinguish between counterfeiting and piracy, neither for the purpose of assessing the infringer's liability, nor for determining the amount of the monetary compensation due to the trademark owner.

However, a definition of piracy as the "wilfully and systematically" counterfeiting and misappropriation of industrial property right is set forth by Article 144 of the Italian Industrial Property Code (hereinafter the **IIPC**). Pursuant to the IIPC, in the case of piracy (only) certain administrative authorities may order the seizure of counterfeited products and, after three months are elapsed and upon prior authorisation of judicial authority, dispose of them at the counterfeiter's expenses.

- 2) *The Groups are asked to present in a summarised form the legal theories in their respective jurisdictions for the assessment of damages for the violation of trademark rights.*

Is this assessment based on the ground of civil liability or on the ground of violation of property ownership or some other ground(s)?

The most relevant element in assessing the damages in trademark infringement cases is the loss of profits suffered by the trademark owner. As stated by the Italian case law and scholars, and now set forth by Article 125 of the IIPC (as amended to implement the EC enforcement directive), such element may be evaluated in light of the following criteria:

- a) loss of business opportunities (i.e. lost profits) due to the infringement activity;
- b) net profits made by the infringer through the infringing activity;
- c) "Reasonable amount of royalty" that the trademark infringer would have paid to obtain a license from the trademark owner.

The current regime (Article 125 of the IIPC, as amended in 2006) allows the trademark owner to properly select the most favourable criterion amongst these options. Therefore the owner of the infringed industrial property right may ask for receiving the net profits made by the

infringer even if the amount of the same exceeds its lost profits, and even when evidence of the amount of its lost profits has not been collected.

Furthermore, Article 125 of the IIPC, as amended in 2006, expressly lays down for the assessment of damages for impaired value of the infringed industrial property right in addition to the assessment of damages for lost profits or net profits made by the infringer. In this respect, the legal theory and the case law state that if the infringement has triggered the impairment of the reputation in the trademark, additional damages should be paid to the trademark owner (equal to the investment needed to rebuild the reputation of the mark in the relevant market).

- 3) *The Groups are asked to indicate what factors are taken into account in the assessment of damages and how the value of the trademark is used in this assessment.*
- a) *Do the Courts take into consideration how strong the trademark is, both in terms of its inherent distinctiveness and popularity acquired through use and publicity?*
 - b) *Do the Courts take into consideration the investment made by the trademark owner in order to make the trade mark known?*
 - c) *Do the Courts consider what direct effect the infringing activity has had on the trademark proprietors profitability? If so, how?*
 - d) *Do the Courts take into account price erosion? If so, how?*
 - e) *Do the Courts distinguish between actual lost sales (i.e; the sales which would otherwise have been made by the trademark owner) and all sales made by the infringer? If so, which sales matter?*
 - f) *Do the Courts treat parallel imports differently? If so, what is the legal basis for this differentiation?*

Elements referred to in questions (a), (b) and (c) are evaluated to assess the sales which would have been made by the trademark holder in absence of the infringement. The Court may order an expert accountancy evidence during the proceedings to better assess which situation would have presented the market without the infringement. The Court may also issue a decision of equitable liquidation of damages (i.e. a lump-sum) based on a rather discretionary assessment of the allegations of the case.

Price erosion referred to in question (d) is sometimes considered by the courts in determining lost profits due to the infringement activity, in case reduction of prices of the original products/ services depends on the impairment of the reputation in the trademark due to the infringement activity or may be considered a reasonable measure adopted in order to reduce the loss of sales of the original products.

As for question (e), the actual lost sales are considered to liquidate damages pursuant to the lost of profit criterion, which is based on the consideration of the loss of business opportunities due to the infringement activity. The sales made by the infringer are relevant if the account of the profits arising from infringement criterion is applied.

As for question (f), Courts do not treat parallel imports differently.

- 4) *In case the compensation is evaluated on the basis of lost profits of the trademark owner or an account of the profits arising from infringement:*
- a) *What are the key principles?*
 - b) *How are the profits defined and how are they calculated?*
 - c) *What shares of the profits are attributed to the trademark owner and any licensees?*

d) *Does the strength of the trademark come into play in apportioning the profits?*

As for question (a) and (b), the net profit (lost or to be accounted to the trademark owner) is calculated referring to the company Ebidta (Earnings Before Interest, Taxes, Depreciation and Amortization) coming from the relevant products. The Courts seem not to take into account the relationship between investment made by the trademark infringer to enter the market and advantages coming from the trademark in selling the products.

As for question (c), the trademark owner would perceive the royalties lost as an effect of the infringing activity; while the licensee would perceive the lost of its profit.

As for question (d), the strength of the trademark does not come into play in apportioning the profits.

5) *In case the monetary compensation is assessed on basis of a royalty,*

a) *How is the royalty rate fixed?*

The royalty accrued by the trademark owner in similar cases is considered, if any. Otherwise, the royalty is fixed taking into account the average royalty paid by licensors to licensees in the relevant field, considering the reputation of the infringed trademark.

b) *Do the Courts consider whether the mark in question is one which is or was available for licence? If so, how does this affect their analysis?*

The "reasonable amount of royalty" is a residual method which is used to determine the minimum amount of damages due to trademark owner when no other methods for liquidating damages are available. Therefore, this method is applied irrespectively from the availability of the trademarks for licence, if no other way to award damages are available.

6) *The Groups are asked to summarise what information in relation to the unlawful activities causing the violation of the trademark can be obtained by the trademark owner in administrative or judicial proceedings in order to assess the level of monetary compensation.*

In order to gather evidence on the extent of the counterfeiting activities carried out by the infringer, in Italy it is common for trademark owners to apply for a preliminary search order ("*Descrizione*"). The purpose of this order is to allow the trademark owner to obtain a pre-trial discovery of the infringer's account books. It is worth noting that preliminary search order proceedings are usually regarded by Italian Courts as having a relatively low impact on the defendant's business. Since the grant of such order does not imply an anticipated assessment by the Court of the (likelihood of the) infringement (as it is required for the interlocutory measures available in the Italian system), but only prima facie evidence of suspect infringement, applicant is generally successful in being granted the authorization to search.

Furthermore, the IIPC sets forth the right for the trademark owner to obtain (a) a trial discovery of the infringer's account books and of all other documents available to the opposing party relevant for assessing the damages suffered; and (b) all the relevant information on the sellers, buyers and manufacturers of the infringing goods. Bank accounts may be the subject of trial or pre trial discoveries only in case of piracy, i.e. "*wilfully and systematically*" counterfeiting and misappropriation of industrial property right (see point 1 above).

7) *One of the forms of the prejudice suffered by the trademark owner through the infringement is the damage to the trademark in a reputational sense (diluting exclusivity). The Groups are invited to report if this form of prejudice is considered by the Courts and what are the factors that are used in their evaluation?*

Courts in Italy award damages for the prejudice to the reputation of a trademark caused by the infringer. Both dilution (impairment of distinctiveness) and disparagement (impairment of reputation) are relevant forms of prejudice for this purpose. The damages are evaluated on the basis of the cost needed to rebuild the reputation of the diluted/disparaged trademark (i.e. the cost that the trademark owner should bear to implement promotional activities, such as advertising campaigns, focused on the trademark).

- 8) *The Groups are also asked to indicate if the moral/wilful element of the violation of a trademark right, and particularly the will to profit or gain from counterfeit activities (where the goods do not originate from the trademark proprietor or are not marked with his consent) is taken into consideration in the evaluation of the damages and/or the account of profits. If so, what are the consequences?*

The Groups are also asked to indicate if ignorance of the trademark and/or ignorance of the infringement is taken into consideration in the evaluation of damages or the account of the profits.

Finally, is the scale of the counterfeiting or piracy an additional element which influences the assessment of damages and/or account of the profits? If so, what are the consequences?

In principle, restoration of damages is linked to the state of mind of the infringer: damages are due only as long as the infringement was triggered by a wilful or negligent behaviour.

However, pursuant to Italian case law, in trademark infringement cases there is a presumption of infringer's negligence/wilfulness, as the trade marks registration system allows to every player in the market to have full knowledge of third parties' trademarks.

Furthermore, wilful infringement also amounts to a criminal conduct and in this case also the moral prejudice caused to the rightholder by the infringement may be assessed by the Court, if requested by the trademark owner.

The scale of the counterfeiting does not impact on the criteria for liquidating damages, but only on the amount of the same.

- 9) *Is the evaluation of damages based on the same principles in cases where the infringement also constitutes a violation of a contractual obligation, for example, a violation of a licence?*

The evaluation of damages is based on the criteria listed in answer 2 here before. However, should an agreement between the parties provide for different rules on damage liquidation, these latter prevail.

- 10) *The Groups are also invited to explain the problems and practical difficulties that the trademark owners face in the assessment of the damages and/or account of the profits for the violation of trademark rights?*

The burden of proving the damages suffered is put on the trademark owner. This is a rather heavy burden to bear as it implies to estimate the market situation if the infringement had not occurred (when lost of profit criterion is applied), and/or the exact size of the profit made by the infringer in connection with the use of the infringing trademark (when account of profit criterion is applied).

This is the reason why Article 125 of the IIPC as amended in 2006 expressly provides for three alternative systems to estimate damages (see answer 2 herebefore) and allows the trademark owner to apply for the evidence means described in answer 6 herebefore.

- 11) *In some cases the national law may provide, as a remedy for the violation of the trademark right, for the confiscation of the products bearing the illicit sign.*

If this applies in their national law, the Groups are asked to indicate, if this confiscation influences the evaluation of the damages.

Apart from the confiscation of goods ordered by the administrative authorities in the cases of "piracy" (as described in answer 1), article 124.4 of the IIPC provides the general remedies of "assegnazione in proprietà" and "distruzione", which means that the trademark owner may obtain the property of the goods objects of the infringement or the destruction of the same at the infringer's expenses, further to the damages awarded.

- 12) *The Groups are asked to indicate if the jurisprudence in their countries is a useful source of information and comparison on the assessment of monetary compensation for the violation of the trademark rights.*

In this context, the Groups are invited to indicate if they are satisfied with the degree of certainty in their laws on evaluation of the compensation.

In the Italian system preliminary injunction plays a key role in limiting the number of litigations which are concluded with an assessment of damages. Usually, if the trademark owner is successful in obtaining a interim injunction preventing the infringer to carry on its activities, litigation is solved by the means of a settlement agreement whereby the parties agree the amount of damages. This is the reason why case law on liquidation of damages is relatively few in Italy.

Apart from that, the case law of specialised IP Divisions of Italian Courts elaborated and refined the criteria of damage liquidation indicated in answer 2 and nowadays stated in the law (article 125 IICP). However, different Divisions used to apply these criteria in different ways. Article 125 IICP (on which there is not settled case law yet) has been introduced in 2005 and amended in 2006 and it may be assumed that it would bring for some more consistency on this matter.

- 13) *The Groups are finally asked to explain any other issues related to the topic which would appear useful in the examination of the question.*

N/A.

II) Proposals for the future harmonisation

- 1) *The Groups are requested to indicate if the evaluation of damages for violation of the trademark rights should be the subject of the international harmonisation and if this harmonisation should be undertaken through an international treaty.*
- 2) *The Groups are requested to indicate what should be, based on their national experience, the harmonised system for the evaluation of damages for violation of the trademark rights.*
- 3) *The Groups are invited to make any other suggestions about possible future developments of the present question.*

The Italian Group believes that this issue is key, as a serious monetary deterrence is needed to safeguard valuable trademark, and then that principles related to trademark infringement evaluation should be harmonised. This harmonisation should (a) be based on both the lost of profit and account of the profit criteria, at the infringed IP right choice; (b) take into account the need to restore the damages suffered by the trademark owner for the impairment of the reputation of its trademark in addition to the lost of profits and account of the profit criteria, and (c) allow the trademark owner to obtain the property of the goods objects of the infringement or the destruction of the same at the infringer's expenses, further to the damages awarded.

Summary

In the Italian system preliminary injunction plays a key role in limiting the number of litigations which are concluded with an assessment of damages. Usually, if the IP right owner is successful in obtaining a interim injunction preventing the infringer to carry on its activities, litigation is solved by the means of a settlement agreement whereby the parties agree the amount of damages. This is the reason why case law on liquidation of damages is relatively few in Italy.

Italian law (Article 125 of the Italian Industrial Property Code, as amended in 2006) provides for a common general rule on IP rights infringement, whereby the IP right owner may properly select the most favourable criterion amongst the following options:

- a) loss of business opportunities (i.e. lost profits) due to the infringement activity;
- b) net profits made by the infringer through the infringing activity;
- c) *“Reasonable amount of royalty”* that the infringer would have paid to obtain a license from the IP right owner.

In order to gather evidence on the extent of the counterfeiting activities carried out by the infringer, in Italy it is common for IP rights owners to apply for a search order (*“Descrizione”*), which allows the trademark owner to obtain a pre-trial or trial discovery of the infringer’s account books.

Courts in Italy also award damages for the prejudice to the reputation of a trademark caused by the infringer. Both dilution (impairment of distinctiveness) and disparagement (impairment of reputation) are relevant forms of prejudice for this purpose.

Furthermore article 124.4 of the IIPC provides the general remedies of *“assegnazione in proprietà”* and *“distruzione”*, which means that the IP right owner may obtain the property of the goods objects of the infringement or the destruction of the same at the infringer’s expenses, further to the damages awarded.

In summary, the Italian Group believes that damages are a key issue, as a serious monetary deterrence is needed to safeguard valuable IP rights, and in particular trademarks. The harmonisation of principles in this matter should (a) be based on both the lost of profit and account of the profit criteria, at the infringed IP right choice; (b) take into account the need to restore the damages suffered by the trademark owner for the impairment of the reputation of its trademark in addition to the lost of profits and account of the profit criteria, and (c) allow the trademark owner to obtain the property of the goods objects of the infringement or the destruction of the same at the infringer’s expenses, further to the damages awarded.