

Claims for intellectual property damages in Italy: what do Courts do?

Under Italian law, an award of intellectual property (IP) damages must follow the general rule for any award of civil damages, i.e. restore the claimant to the but-for situation, in which he would be if the infringement had not taken place. The claimant has therefore the right to recover his *damnum emergens* (i.e. expenses borne as a consequence of the infringement), *lucrum cessans* (i.e. lost profits), and damages to his commercial reputation.

Legislation enacted in 2006¹ provides for a somewhat claimant-friendly procedure for the calculation of lost profits, which are normally the largest damage component. These can be calculated in three ways:

- a) by comparing the profits that the claimant has obtained post-infringement, with those he would have obtained without the infringement;
- b) on the basis of the royalties that the defendant would have paid to the claimant for the right of use of the IP;
- c) on the basis of the infringer's profits, in so far as they do not exceed the profits lost by the claimant.

Methods (b) and (c) lower considerably the burden of proof of the amount of damages upon the claimant. On the basis of method (a), proving damages would often require him to disclose detailed sale, price, and profit information, and offer substantial room to the defendant to question the correctness of these data².

Furthermore, the legislation introduced special IP courts, which, over time, have created a body of specialized judges.

In order to see how such Courts behave, I will consider here a large body of 87 judicial decisions, based upon the 2006 legislation, where damages were awarded for the infringement of four types of intellectual property: patents

* Breakfast presentation at Salone del Mobile, 11 April 2013.

¹ Art. 125 of Decreto Legislativo 140/2006.

² The use of these two methods was also made easier by the 2006 legislation by the introduction of new (but somewhat limited) discovery procedures, which are still very far from those prevailing in common law countries, but are much more claimant-friendly than those available for civil damages in general.

(29% of decisions), trademarks (31%), designs (registered and unregistered, 23%), and copyrights (17%). I will also separately consider the 20 decisions of the sample concerning specifically infringements regarding designs, and discuss three cases in more detail³.

The liquidated damages in the sample vary greatly, from about €4.6 million in a pharmaceutical case (*Fidia*), to about € 200 in a copyright case (*Titanus*). The median liquidated damage for the entire sample is about € 40,000. In general, patent damages are higher than brand damages, whereas copyright and design damages are lower. The median liquidated damages for infringements concerning design is €32,500.

A startling feature of the 87 decisions analyzed is that claimants formulated a specific damage request only in a small number of cases. Indeed:

- only in 27 cases the claimant specified the amount of the damages it was seeking, while in the remaining cases he only indicated that damages should be assessed by the Court;
- out of the 27 cases, in 18 the claimant specified only a global amount of damages, without specifying their composition in terms of lost profits, *damnum emergens*, and reputational damages;
- only in 8 cases (i.e. less than 10% of the total) the claimant specified a quantum for lost profits.

This may be the result of different factors.

First, in some cases, this may follow from a specific legal strategy of seeking to obtain from the Court either interim measures, or ordinary remedies such as permanent injunctions, withdrawal from the market, and delinquency penalties. Claimants, and their lawyers, in other terms probably decide in some cases to stake their chips on these results, rather than on damages. However, there is no evidence that a detailed request for damages jeopardises the success of the requests for other types of remedies, so this is unlikely to supply a general explanation.

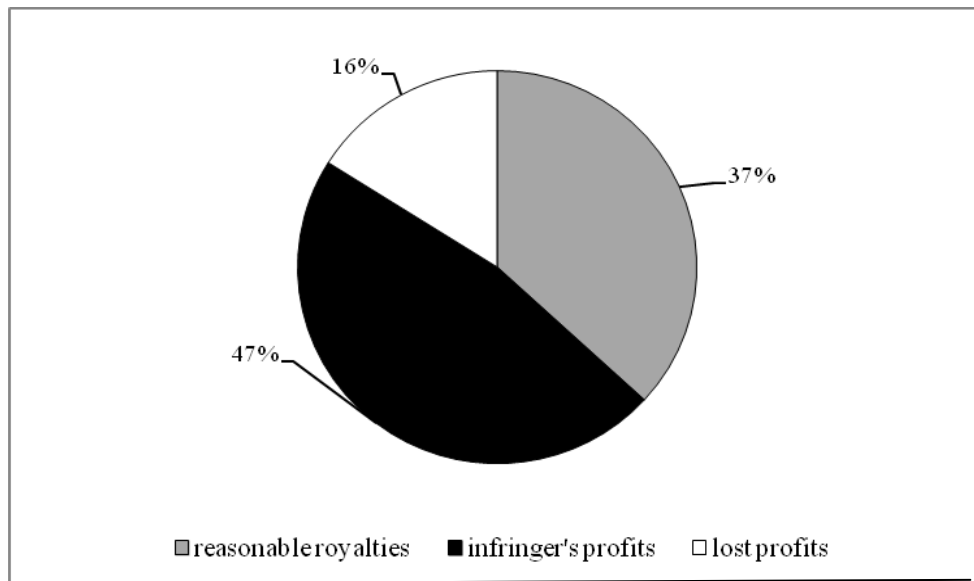
Second, it may reflect the fact that the claimants frequently hope to recover the infringer's profits, or some "lost royalties", which they are unable to estimate at the outset of the litigation, but hope to ascertain during its course.

This is probably the correct explanation because, as we can see from [Figure 1](#), Courts rely in about one half of the cases on the infringer's profits for

³ Both samples are highly representative, as I was unable to find further decisions in the major available databases: therefore, more than samples they probably represent the entire populations.

damage estimation, and in about one third on the reasonable royalty method. Damages estimated on the basis of the claimant's lost profits supplied a basis for damages estimation only in about 15% of the cases.

Figure 1: Basis for damage estimation in the entire sample of IP judicial decisions



In fact, the strategy of being rather vague about the precise amount of damages seems a costly one, as the median damage liquidated is around € 40,000 when the amount of the damage was not specified, and around 50,000 when it was. Considering the sample of 20 cases concerning design, the benefit of an explicit damages claim is higher, as the median here is about 60,000, versus 26,000 when the quantum of damages was not made explicit.

In the light of these data, leaving entirely to the Court the assessment of the damage is a delicate decision, particularly if we consider that Italian Courts may be naturally inclined to be quite stingy when awarding equitable damages.

Indeed, Italian Courts can always liquidate damages on the basis of an equitable criterion, whenever the damages cannot be ascertained with sufficient precision. When they do so, they are not requested to indicate a specific methodology, but are under a general obligation of granting a "reasonable and proportional" amount, which should be "adequately motivated".

As the requirement of adequately motivating an equitable damage liquidation is very close to an oxymoron, Courts tend to be quite prudent about the amount of damages they liquidate on such a basis. Therefore, in practice, a request by the claimant for equitable damages may often produce a small damages award.

In any case, Courts do require assistance by the claimant when they need to estimate the infringer's profits, as they are often unable to apply correctly the notion of incremental cost.

From an economic point of view, it is obvious that the costs that the infringer incurred in order to produce and/or sell the infringing product are only those having an incremental nature, i.e. costs that would not have been borne absent the infringement. If someone imports from China slavish copies of the beautiful tables manufactured by Prosperetti Design Group, and takes away some of my sales, his profits should be assessed by subtracting from sales revenue only the costs that have been borne as a direct consequence of the import of the copies. Typically, these cover the cost of the product, plus rather low transportation and logistics expenses. However, they do not cover any amortization, rent, and staff cost for the entire company, as these would have been incurred even if the import on the infringing product had not taken place.

This is a clear point in accounting, but is often missed by the Courts, which tend to think about costs and revenues as if they were looking at income statements of firms, which allow one to calculate average and not incremental values. As the incremental cost is generally much lower than the average cost, failing to clarify such a crucial point invariably results in a low damages award.

From a detailed analysis of several of the decisions, it appears quite clearly that often the Court was left alone when it had to estimate the profits from the amount of sales. Considering only decisions concerning design, in 2 out of 20 cases the Court estimated that infringer's profits accounted only for a trivial sum (10%) of the infringer's sales, and in 3 more cases it estimated them to be a little higher (25-30%), but still considerably lower than the profit margin earned by an infringer, who typically does not bear research and development costs, marketing costs and advertising costs.

On the basis of the above, we should conclude that it is probably useful for the claimant to provide some economic/accounting structure to the Court's thinking. This may or may not entail giving a precise number for damages in the claim, but it certainly entails providing a clear methodological support when the Court has to estimate the infringer's profits. Where the likely amount of damages make it reasonable, it may also be advisable to request the appointment of an accountant as a Court's Expert, to make damage estimation more effective.

There are two further areas where the Court's thinking needs support by the claimant: the substitutability of the infringer's product with the original one, especially in trademark, copyright, and design cases; the relevance of the patented components of a product in the value of the product.

The first issue is crucial, as Italian courts will curtail the damages calculated on the basis of the infringer's profits, if they estimate that the sales of such products have not fully cannibalized the sales of the original products. In order to prove this, it may be useful to file market research, advertising material, or experts' statements to the effect that sales of the infringing products did indeed substitute, or at least were very likely to substitute, sales of the original products.

A related issue is whether the fact that the price of the infringing product was much lower than the price of the original one should lead the Court to decide, as is often the case, that the two products were not really substitutable, and therefore the damage should be calculated on the basis of only a portion of the infringer's sales.

From an economic point of view, this seems correct. However, if a large price differential leads the Court to conclude that the two products were not substitutable, such an observation should also lead the court to conclude that the sales of the infringing product had a substantial negative effect on the IP owner reputation, as consumers are very likely to consider that the premium price commanded by IP is not really warranted.

Therefore, it seems advisable to bring forth both arguments at the same time: the two products were substitutable; if they were not, as their prices were very different, commercial reputation was severely damaged.

The second issue is relevant because an otherwise successful claim for patent infringement for the component of the product may lead to a low damage award if the Court is not convinced that the component contributed substantially to the value of the product. This is in part a technical issue, and in part an economic issue. From the latter viewpoint, the value of the component could be estimated in a but-for fashion, by estimating the market price of the product not incorporating the component, possibly referring to other markets or to similar products.

The above overall observations are borne out more clearly by the analysis of some design cases.

In *Bialetti*, a case involving the infringement of registered designs of coffee-making pots, and the slavish imitation of the iconic Moka model, decided by the Milan Court in 2009, the claimant presented a generic damage request "*on the basis of what the Court will consider to be equitable*", and did not make available to the Court any information on the basis of which it could gather the infringer's profits. The Court then took 10% of the estimated

turnover of the infringer as a measure of its profits, and awarded damages only for €40,000.

In *Flos* - a case of infringement of the copyright for an iconic lamp (ARCO, designed by Arch. Castiglioni in 1962) - the Milan Court in 2012 awarded a total of €40,000 to the claimant for lost profits (a very small amount, equal to the sales value of about 20-25 units), although it awarded €20,000 for losses to commercial reputation. This seems to confirm what we discussed above about the connections between the two types of damages when the price of infringing product is much lower than that of the original product.

In *Natuzzi*, the Bari Court liquidated € 500.000 for lost profits from the slavish imitation of several couch models, after appointing an Expert who undertook a thorough review of the infringer's accounts. It is remarkable here that the Court awarded damages to Natuzzi's reputation of €100,000, considering the systematic nature of the infringement, and the fact that the price difference between the original and the imitated products "*would convince consumers that the claimant enjoys excessive profits*".

Taken together, the above evidence would suggest that the claimant-friendly routes introduced by the 2006 Italian legislation indeed work reasonably well, but that the Courts need to be assisted by the claimant in some crucial areas, if a reasonable damage award is to be obtained.