

New guidance from the Italian Supreme Court on compensation for damages

On September 13th, 2021 the Italian Supreme Court issued a new decision no. 24635/2021 on the issue of compensation for trademark infringement, holding that the damaged right holder is not exempted from proving the damages that were actually suffered, even though the burden of proof is mitigated pursuant to Article 125.2 of the Italian Intellectual Property Code (IPC).

Background

In the case at issue, the Court of Turin, acting as the court of first instance, ascertained the existence of trademark infringement, as well as conduct amounting to acts of unfair competition, and awarded the right holder compensation for damages equal to a 2.5 % royalty of the infringer's estimated turnover.

To calculate this royalty, the first instance judges relied on the criteria of the infringer's turnover and net profits.

The defendant challenged the award of damages before the Court of Appeal of Turin, which upheld the appeal on the basis of the following grounds: the plaintiff had not provided any proof of the damages actually suffered and, to the contrary, had merely alleged that (i) the consequential damages included the costs incurred for the investigation into the infringement and the dilution of the trademark, and (ii) the loss of profit had corresponded to a loss of the trademark owner's earnings.

Therefore, the Court of Appeal rejected the plaintiff's claim for damages, holding that the damages allegedly suffered had been presented as a mere automatic effect of the infringement, without being demonstrated by proof of the reduction of the sales and the consequent loss of profits.

Legal framework

With reference to the case at issue, the relevant provisions are to be found in:

Article 125.1 of the IPC: «*The compensation due to the damaged party shall be settled in accordance with Articles 1223, 1226 and 1227 of the Civil Code, considering all relevant aspects [...]* »;

Article 125.2 of the IPC: «*The judgment awarding damages may liquidate them in an overall amount to be determined on the basis of the documents of the case as well as the presumptions arising therefrom. In this case, the loss of profits shall in anyway be determined in an amount that is not less than the royalties which the infringer would have had to pay if he had obtained a license from the owner of the infringed right*».

Article 1223 of the Italian Civil Code: «*The compensation for the non-performance or delay shall include the damages suffered as well as the loss of profits, in so far as they are immediate and direct consequence thereof*».

The case before the Italian Supreme Court

Following the Court of Appeal of Turin's decision, the plaintiff filed an appeal before the Italian Supreme Court on two grounds: (i) failure to examine a decisive fact *i.e.* that a criterion for the award of the damage is constituted by the enrichment of the infringer; (ii) violation of Article 125.2 of the IPC due to the fact that the loss of profit can also be determined according to the *hypothetical license fee* criterion.

According to the Supreme Court's analysis of the matter, while the first instance court had stated that Article 125.2 of the IPC introduces a criterion that is an alternative to that set forth in Article 125.1 IPC, the Court of Appeal had correctly pointed out that even Article 125.2 cannot disregard the principles of compensation for damage set out by the Italian Civil Code.

Indeed, the Supreme Court held that Article 125.2 does not disregard the common principles of Civil Law, exempting the right holder from providing evidence of the suffered damages, but only introduces a simplification of the burden of proof, by mitigating it.

This conclusion was reached through a logical and literal interpretation of the articles in question. Indeed, Article 125.2 refers to “*the judgment awarding damages*”, therefore expressly referring to Article 125.1, which in turn, recalls the general principles of civil law relating to the nexus between

the illicit conduct and the damages, the fair assessment of damages and the causal contribution of the damaged party.

Conclusion

In this decision, the Italian Supreme Court has clearly stated that, even when claiming compensation for trademark infringement that is equal to a hypothetical license fee for use of the right in question, pursuant to Article 125.2 IPC, the right holder is indeed required to provide evidence of the damages suffered. However, this burden of proof is mitigated, and it is deemed sufficient to file elements of proof from which one may derive clues and presumptions.

In reaching this conclusion, while the Italian Supreme Court's decision is in line with its own case law holding that documents showing that the infringer had delivered counterfeit supplies proves a loss of profit (Italian Supreme Court, judgment no. 20716/2017), it does not, however, contradict the established assumption that the loss of profit is not a mere and automatic consequence of the infringement.