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## Remedies and sanctions for the infringement of IPR under EC Law

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LT Enforcement of intellectual property rights; remedies and sanctions; border measures; criminal sanctions

### *Introduction*

As is known, intellectual property rights (IPR) grant owners the exclusive right to prevent third parties from exploiting their trademark, invention, design or copyrighted work. For example, artists are in a position to stop the said third parties importing and selling pirated CDs or DVDs which infringe their copyright, and inventors are entitled to prevent imitators from reproducing and using in their course of business the patented invention.

States must therefore provide IPR holders with the legal tools necessary to enforce their exclusive rights and – more generally - fight the widespread phenomenon of piracy and international trade of counterfeited products. Indeed, the said phenomenon is ever more rampant. In May 2007 the OECD published a report on international trade involving counterfeited and pirated products. The report – whose title is “*The Economic Impact of Counterfeiting and Piracy*” - <sup>1</sup> estimates that international trade in 2005 involving counterfeit or pirated works totalled US\$ 200 billion. This excludes non-tangible pirated digital products being distributed via the Internet as well as domestically produced and consumed pirate and counterfeit goods. It includes physical products of many kinds including spare parts, pharmaceuticals, toys, clothing, and jewelry. If the two excluded categories were included, the report suggests that several hundred billion dollars more would have to be added added. The report also states that Asia is the largest source for counterfeit and pirated products, with China as the single largest source economy.

In order to fight the above rampant phenomenon of piracy specific rules have recently been adopted at EC level, such rules providing IPR holders with legal remedies and setting sanctions against infringers.

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<sup>1</sup> The executive summary of the above report is available at <http://www.oecd.org/dataoecd/13/12/38707619.pdf>.

First of all, this article will make reference to the EC Directive on the Enforcement of Intellectual Property Rights.<sup>2</sup> This is the first directive which aims to harmonize all kind of IPR, thus entailing a form of horizontal harmonisation. As opposed to previous directives, the Enforcement Directive provides measures, procedures and remedies for all areas of intellectual property. On the contrary, earlier directives were of a vertical nature, since they dealt with specific areas of intellectual property, such as those harmonising various aspects of copyright law and one harmonising the law of trademarks.<sup>3</sup>

Moreover, the author will spend a few words on both the EC Regulation 1383/2003 concerning customs action against goods suspected of infringing IPR and the recent European Commission proposal which sets criminal sanctions in case of IPR infringement on a commercial scale.

### ***Subjects entitled to ask for remedies***

Who is entitled to ask for remedies, measures and sanctions in order to stop the infringing activities?

Art. 4 of the Enforcement Directive provides that the subjects entitled to ask for the application of remedies, procedures and sanctions are (a) the IPR holders, (b) the persons authorised by the said holders (*e.g.* licensees), (c) collective rights management bodies and (d) professional defence bodies.<sup>4</sup>

Some problems may arise as regards copyrighted works, since – as is known – copyright exists from the creation of a work and does not require formal registration; it follows that in certain cases to find the ownership of the copyright – *e.g.* the copyright on a book – might be difficult. In such a case, therefore, the presumption is established whereby the author of a literary work is considered the subject entitled to institute infringement proceedings. This provision is provided in the Enforcement Directive,<sup>5</sup> but it had been previously codified by the Berne Convention.<sup>6</sup>

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<sup>2</sup> Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights (hereinafter “Enforcement Directive”).

<sup>3</sup> See K. Huniar, *The Enforcement Directive: Its Effects on UK Law*, 2006 E.I.P.R., pp. 92-98.

The Enforcement Directive has been adopted also in order to implement at EC level several rules provided by the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs Agreement) of the World Trade Organization (WTO). As is known, the TRIPs Agreement was signed by all WTO member countries in 1994 and covers all types of intellectual property including patents, copyright and trademarks. It requires IPR to be protected in all WTO member countries. In particular, art. 41 of the TRIPs Agreement provides that enforcement procedures should be available “*so as to permit effective action against any act of infringement of intellectual property right [...], including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements*”. In this article the author will often mention the enforcement-related provisions of the TRIPs Agreement.

<sup>4</sup> See also art. 42 of the TRIPs Agreement, whose footnote states forth that the term “right holder” includes federation and associations having legal standing to assert such right.

<sup>5</sup> See art. 5 and Recital 19 of the Enforcement Directive.

<sup>6</sup> See art. 15.1 of the Berne Convention for the Protection of Literary and Artistic Works.

As seen earlier, also professional defence bodies are entitled to ask for remedies, measures and sanctions. For example, under Italian rules regarding unfair competition professional defence bodies are entitled to take action against the competitors of their associates (who commit unfair acts against the same) and ask for legal remedies. Let us think, for example, of a commercial disparagement activity brought about by a seller of alcohol-free beverages *vis-à-vis* the producers of wine, or by a manufacturer of synthetic fur *vis-à-vis* the producers of animal fur.<sup>7</sup>

## ***Evidence***

In order to succeed in an infringement action the plaintiff needs to gather as much evidence as possible about the violation: this is a necessary and important precondition for the success of the action.

However, the said task often turns out to be difficult.

Let us think, for example, about a trademark owner that suspects that its competitor sells products infringing its trademark, but is not certain of it (and cannot get possession of an item of the infringing goods). In such a case, the above owner – after instituting the relevant proceedings - would need to show the judge that the infringer carries out an infringing activity, such as the production and sale of products bearing the infringing trademark or the distribution of leaflets, brochures, advertising material and commercial catalogues reproducing the said trademark.

How would it be possible to gather such evidence in the context of an infringement action?

Well, art. 6.1 of the Enforcement Directive provides IPR holders with an appropriate tool for obtaining the above evidence. In particular, it provides that – on application by a party which has presented reasonably available evidence sufficient to support its claims and has specified evidence which lies in the control of the opposing party - the competent court may order that such evidence be presented in court by the defendant.<sup>8</sup> Thus, if a trademark owner is certain that its competitor's goods, leaflets, brochures or commercial catalogues unlawfully bear, or in any way make reference to, its trademark, the said owner may ask the judge to order the defendant to present them in court.

Moreover, art. 6.2 of the Enforcement Directive states that in case of an infringement committed on a commercial scale, courts may order – on application by a party – the communication of banking, financial or commercial documents under the control of the opposing party. These documents (which usually relate to the infringing products) might consist of bank accounts records, invoices, delivery

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<sup>7</sup> See A. Vanzetti – V. Di Cataldo, *Manuale di diritto industriale*, Giuffrè, 2005, p. 19. See also G. Ghidini, *La concorrenza sleale*, Terza edizione, UTET, 2001, pp. 56 et seq.

<sup>8</sup> Analogous provision is provided by art. 43.1 of the TRIPs Agreement.

notes and warehouse receipts. Such provision may help IPR owners in showing and proving the damages they have suffered as a consequence of the infringing activity. For example, the above banking, financial and commercial documents could show that the infringer – by selling the infringing products – has unfairly obtained huge profits. As we will see later, the Enforcement Directive provides that the injured party could ask – as damages – a sum equal to the profits made by the infringer.

We have seen that the communication of banking, financial or commercial documents may be ordered in cases of an infringement committed on a commercial scale. According to Recital 14 of the Directive, acts carried out on a commercial scale are those carried out for direct or indirect economic or commercial advantage; this would normally exclude acts carried out by end consumers acting in good faith. However, the above Recital 14 states that it is possible Members States to apply the measures in question also in respect of other acts, *i.e.* not only with reference to infringement acts committed on a commercial scale.

It must be borne in mind that the presentation and communication of all the above data and documentation are subject to the protection of confidential information. Thus, in case – for example - the opposing party is ordered to present in court banking, financial and commercial documents related to the infringing goods, the said infringer is entitled to delete from the documents that information or those data which do not refer to the products in question.<sup>9</sup>

Gathering evidence is not enough for IPR owners. It is also important to preserve the relevant evidence in respect of the alleged infringement until a decision on the merits is released.

That is why art. 7 of the Enforcement Directive provides that even before the commencement of proceedings on the merits, the courts may order prompt and effective provisional measures to preserve relevant evidence in respect of the alleged infringement. Such order is made on application by a party who has presented reasonable evidence to support its claim that its IPR have been infringed or are about to be infringed. Moreover, as above, the said preservation is subject to the protection of confidential information.

One of the above provisional measures is the detailed description (with or without the taking of samples) of the infringing goods and, in appropriate cases, of the materials and implements used in the production and/or distribution of these goods and the documents relating thereto.

The description is an activity which is carried out by a court bailiff: in particular, the said bailiff accedes to the premises of the alleged infringer and – possibly with the help of technical experts –

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<sup>9</sup> See also art. 42 of the TRIPs Agreement, which provides that the judicial procedures concerning the enforcement of IPR shall provide a means to identify and protect confidential information.

“describes” in detail (often enclosing photographs) the physical objects which are said to constitute infringement (usually the bailiff drafts the minutes in which the said objects are described).

When is the description necessary?

Let us take the example of a new coffee machine which is to be presented for the first time at a trade fair and is believed to infringe a patent: well, in this case, it is clear that the holder of the patent cannot buy a sample of the infringing coffee machine and present it in court to show evidence of the infringement, as such machine is not yet being marketed (but just presented at a trade fair). Therefore, the patentee – if he wants to “build” and preserve the evidence of the infringement – has to ask and carry out the above description. For example, Italian courts have defined the description proceedings as “*a form of preventive investigation having evidence purposes, aiming at constituting and keeping a proof for the subsequent action on the merits*”.<sup>10</sup>

The description is moreover necessary in case of infringement of process patents and the said infringement is not detectable by examining the final product.<sup>11</sup>

Another measure which is useful to preserve evidence is the physical seizure of the infringing goods, especially when the IPR owner is not in a position to buy an item thereof. Well, in this case, the seizure of the infringing goods facilitates the right holder in proving that the goods bear, for example, a fake trademark.

### ***The right of information***

The holder of the infringed IPR can also obtain information concerning the involvement of third parties and the origins of the infringing goods.

In particular, according to art. 8 of the Enforcement Directive, the information which can be obtained by right holders relate to the origin of the infringing products or the distribution networks used by the defendant, including information on the name and address of the producers, manufacturers, distributors, suppliers and other previous holders of the goods or services (*e.g.* wholesalers and retailers), as well as information on the quantities produced, manufactured, delivered, received or ordered and on the price of the goods and services.<sup>12</sup>

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<sup>10</sup> See the ruling of the Bologna Court of April 20, 2005 (*Italian IP Courts Case Law Report*, 2005, Part 1, pp. 52-53).

<sup>11</sup> See A. Vanzetti – V. Di Cataldo, above fn. 7, p. 507.

<sup>12</sup> See also art. 47 of the TRIPs Agreement, which provides that States may provide that judicial authorities shall have the power “*to order the infringer to inform the right holder of the identity of third persons involved in the production and distribution of the infringing goods or services and of their channels of distribution*”.

The subjects required to give information are persons, for example, who were (i) found in possession of the infringing goods, (ii) found to be using the infringing services on a commercial scale, or (iii) indicated by the above persons as being involved in the production and distribution of the goods or the provision of the services.

Such provision is very useful because it helps IPR owners in detecting the distribution channels and the original producer of the infringing goods. In particular, the information gathered may shed light on the existence of other infringement acts (related to the same products) occurred in different countries. Such information, then, may prompt IPR holders to take legal action also against the (newly discovered) infringers in the above different jurisdictions.

### ***Provisional and precautionary measures***

IPR owners can also request and obtain provisional measures with a view to stopping infringing activities. Such measures are issued by courts against both infringers and intermediaries (whose services the infringer is using).<sup>13</sup>

The two provisional measures which are described by art. 9 of the Enforcement Directive are (i) interlocutory injunctions and (ii) seizures.

(i) Interlocutory injunctions are issued – at the request of the right holder – against the alleged infringer to either prevent any imminent infringement of an intellectual property right or forbid the continuation of the said violation (for example, the imminent or actual sale of clothing bearing an infringing trademark).

In general, injunctions look to the future and are orders directing a party to do or refrain from doing an act. In the intellectual property sector an injunction is almost always prohibitory (as opposed to mandatory), since – as we have seen - it enjoins the commission or continuance of wrongful acts. Injunctions can be “final” and – as in this case - “interlocutory”. Interlocutory injunctions do not enforce an established right, but just maintain the *status quo* (i.e. the pre-infringement situation) until a trial of the merits can take place. Thus, an interlocutory injunction – ordering the defendant not to continue or not to embark upon a commercial activity – is a rapid and relatively cheap way of

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<sup>13</sup> The purpose of the provisional measures is well clarified by art. 50.1 of the TRIPs Agreement, i.e. (a) to prevent an infringement of any intellectual property right from occurring, and in particular to prevent the entry into the channels of commerce of goods, including imported goods immediately after customs clearance, and (b) to preserve relevant evidence in regard to the alleged infringement (as we have seen earlier).

procuring temporary redress. Moreover, these measures may severely compromise the commercial success of the infringing goods.<sup>14</sup>

(ii) The other provisional measures provided by art. 9 of the Enforcement Directive are seizures.

These measures are issued – at the request of the right holder – against the alleged infringer with a view to seizing or delivering up the goods suspected of infringing IPR. Thus, the purpose is to prevent the entry into (or movement within) the channel of commerce of the infringing goods. Therefore, we can see that the seizure aims at avoiding the further circulation of the infringing products.<sup>15</sup>

Like the description, the seizure is carried out by a court bailiff and the right holders are entitled to participate to the seizure operations.

According to art. 9.3 of the directive, in order to obtain the above injunction and seizure orders, IPR owners must provide any reasonable available evidence in order to satisfy courts that the same are effectively the right holders and that their IPR are being infringed or that such infringements are imminent. These are necessary conditions in order to obtain the orders in question.<sup>16</sup>

Also Italian law requires right holders to prove the validity of their IPR and the existence or immanency of the infringements by the alleged violator. In particular, under Italian law, in order to obtain such orders, IPR owners should prove the existence of the two following requirements, (i) the so-called *fumus boni iuris* and (ii) the so-called *periculum in mora*.

The *fumus boni iuris* is a *prima facie* suspect of the unlawfulness of the other side's behaviour, whereas the *periculum in mora* is the risk of actual and not restorable harm if the above interim measures are not quickly granted by courts.

As a general remark, the *fumus boni iuris* requirement is met whenever the right holder shows the existence and validity of its IPR (*e.g.* by presenting in court the copy of its trademark or patent registration certificate), as well as proves the commission of an unlawful act by the respondent (*e.g.* by presenting in court an item of the infringing product together with the relevant purchase invoice). For example, the *fumus boni iuris* requirement was upheld in Italy in a case in which the applicant showed that the defendant had reproduced in its web-site an entire web-page of the right holder, including its registered and unregistered trademarks (in particular, the applicant presented in court the copies of the

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<sup>14</sup> See. W. R. Cornish, *Intellectual Property: Patents, Copyright, Trademarks and Allied Rights*, Sweet & Maxwell, Fourth Edition, 1999, p. 68.

<sup>15</sup> As we have seen earlier seizure orders are also issued with a view to preserving evidence about the infringement (in addition to stopping the further circulation of the infringing goods). This has been confirmed also by Italian Courts. See, for example, the ruling of the Court of Appeal of Bologna of March 16, 2001 (Italian case law review *Giurisprudenza Annotata di Diritto Industriale*, 2002, p. 90).

<sup>16</sup> See also art. 50.3 of the TRIPs Agreement.

other side's web-pages). Such behaviour was deemed sufficient to grant an interlocutory injunction aimed at blocking the use of the above trademarks, online and offline.<sup>17</sup>

The *periculum in mora* requirement is usually upheld when the production and sale of the infringing goods has just begun and is on-going. It follows that – if the infringing activity is over – the *periculum in mora* requirement is not met and the provisional measures should not be granted. For example, in a trademark infringement case an Italian court has recently affirmed that “*the on-going sale of the infringing products entails a loss of profitability and a risk of irreparable customers diversion and trademark tarnishing, thus determining the periculum in mora requirement*”.<sup>18</sup> On the contrary, the *periculum in mora* requirement has not been recognized as existent in a case in which the IPR owner requested a preliminary injunction five years after being first aware of the existence of the infringing activities.<sup>19</sup>

Both the interlocutory injunctions and seizures may be ordered without the other party having been heard (“*inaudita altera parte*”), in particular where any delay is likely to cause irreparable harm to the IPR holder (art. 9.4 of the Enforcement Directive).<sup>20</sup> These measures are commonly called *ex parte* orders and are granted when there is extreme urgency to stop the infringing activity (*e.g.* when the infringer is massively marketing infringing goods and informing the same about the existence of the proceeding would prompt him to hide or dispose of the products in question). These measures usually apply to professional infringers.<sup>21</sup>

It must be borne in mind that, when *ex parte* orders are granted, the parties affected must be given notice of the said order without delay after the execution of the measures at the latest. Moreover, a review (including a right to be heard) shall take place upon request of the parties affected with a view to deciding whether the measures shall be modified, revoked or confirmed.<sup>22</sup> This provision has been inserted in order to give the respondent a chance to challenge the lawfulness of the injunction or seizure orders (issued *ex parte*).

Provisional and precautionary measures are not “perpetual” and must be followed by a proceeding on the merits. Indeed, art. 9.5 of the Enforcement Directive provides that if – within a period of 20

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<sup>17</sup> See the ruling of the Genoa Court of April 26, 2005 (*Italian IP Courts Case Law Report*, 2005, Part 1, pp. 123-124).

<sup>18</sup> See the ruling of the Florence Court of January 13, 2005 (*ibid.*, pp. 90-91). See also the rulings of the Florence Court of April 22, 2005 (*ibid.*, pp. 104-105) and of April 26, 2005 (*ibid.*, pp. 106-107).

<sup>19</sup> See the ruling of the Bologna Court of February 12, 2005 (*ibid.*, pp. 41-42). In this regard, see also the ruling of the Catania Court of September 8, 2005 (*ibid.*, pp. 83-84).

<sup>20</sup> See also art. 50.2 of the TRIPs Agreement, which adds that such measures might be adopted “*where there is a demonstrable risk of evidence being destroyed*”.

<sup>21</sup> See. D. Gervais, *The TRIPs Agreement – Drafting History and Analysis*, Second Edition, Sweet & Maxwell, London, 2003, p. 308.

<sup>22</sup> See also art. 50.4 of the TRIPs Agreement.

working days or 31 calendar days (whichever longer) - the applicant does not institute a proceeding on the merits, the provisional measures are revoked or otherwise cease to have effect.<sup>23</sup> Thus, this provision urges applicants (that have obtained provisional measures) to institute a proceeding on the merits (*i.e.* a more thorough trial), which is more complex than an urgent action and gives the opportunity to discuss more in depth about the lawfulness of the said precautionary measures.

Moreover, it might happen that *earlier* a provisional measure (such as an injunction or a seizure) is granted and *later* – at the end of the trial on the merits – the infringement liability of the alleged infringer is excluded and consequently the said measure revoked. In this regard art. 9.6 of the Enforcement Directive provides that, where the provisional measures are revoked or it is subsequently found that there has been no infringement of IPR (or threat of infringement), the courts have the authority to order the applicant to provide the defendant appropriate compensation for any injury caused by those measures.<sup>24</sup> Let us think, for example, about an alleged infringer, whose business activity (*e.g.* the sale of clothing suspected to infringe the right holder's trademark) has been stopped as a consequence of the granting of a preliminary injunction: if the alleged infringement is excluded by the final ruling in the proceeding on the merits, the result is that the defendant has incurred unfair commercial losses and injury, which should be compensated by the right holder.<sup>25</sup>

### ***Measures resulting from a decision on the merits of the case***

What remedies can be adopted by courts at the end of a proceeding on the merits?

First of all, once a court has found that certain goods (or materials and implements used in the creation or manufacture of those goods) infringe IPR, the said court may order (i) the recall from the channel of commerce of such products; (ii) the definitive removal from the channels of commerce and (iii) the destruction of the same. These are called “corrective measures” and must be adopted at the expense of the infringer (art. 10 of the Enforcement Directive).<sup>26</sup> The aim is precisely to “correct” the infringement and eliminate from the course of trade those products which are found to infringe IPR.

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<sup>23</sup> See also art. 50. 6 of the TRIPs Agreement.

<sup>24</sup> See also art. 50.7 of the TRIPs Agreement.

<sup>25</sup> In order to alleviate the position of an alleged infringer (that, at the end of the proceeding on the merits, might be found not liable) art. 9.6 of the Enforcement Directive provides that the courts may make the provisional measures subject to the lodging by the applicant of adequate security or an equivalent assurance intended to ensure compensation for any prejudice suffered by the defendant in case the provisional measures are revoked or where it is subsequently found that there has been no infringement or threat of infringement.

<sup>26</sup> Analogous remedies are provided by art. 46 of the TRIPs Agreement.

Another measure which is usually adopted at the end of a proceeding on the merits is the final injunction (see art. 11 of the Enforcement Directive). We have already seen that, in general, injunction orders look to the future and direct a party to do or refrain from doing the infringing activity (*e.g.* the sale of goods bearing an infringing trademark). This is one of the most important measures obtainable by IPR holders, as it prevents the continuation of the infringing activity. In many cases IPR owners take legal action against infringers exclusively with a view to obtaining the final injunction.<sup>27</sup>

Moreover, art. 11 of the Enforcement Directive provides that – where provided for by national law – non compliance with an injunction shall, where appropriate, be subject to a recurring penalty payment, with a view to ensuring compliance.<sup>28</sup> These measures aim at strengthening the injunction orders. Indeed, infringers think twice before violating an injunction order if they run the risk of paying an high penalty payment.

## ***Damages***

Usually (also) damages are awarded by the decision on the merits of the case.

Money damages are an important remedy against the infringement of IPR. When do damages have to be paid? Should all infringers be liable for damages?

Art. 13.1 of the Enforcement Directive is clear. Just the infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity, may be ordered by courts to pay the damages suffered by the IPR owner. Thus damages can be invoked by the injured party only in case of wilful and/or negligent acts.<sup>29</sup>

It must firstly be borne in mind that the aim of the Enforcement Directive is not to introduce an obligation to provide for punitive damages (which are often claimed and awarded in USA), but to allow for compensation based on objective criteria while taking the right holder's expenses into account<sup>30</sup>. The overriding principle underlying the provisions on damages is that an injured party must be restored to the position it would have been in before its intellectual property right was infringed.

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<sup>27</sup> See also art. 44 of the TRIPs Agreement, which provides that “*the judicial authorities shall have the authority to order a party to desist from an infringement, inter alia to prevent the entry into the channels of commerce in their jurisdiction of imported goods that involve the infringement of an intellectual property right [...]*”.

<sup>28</sup> The same applies to interlocutory injunctions, according to art. 9.1(a). In this regard see also M. Ricolfi, *Le misure compulsorie*, in Quaderni Aida - *L'Enforcement dei diritti di proprietà intellettuale – Profili sostanziali e processuali*, Giuffrè, Milano, 2005, pp. 91 et seq.

<sup>29</sup> More protectionist is art. 42.2 of the TRIPs Agreement, which provides that States “*may authorize the judicial authorities to order recovery of profits and/or payment of pre-established damages even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity*” (emphasis added).

<sup>30</sup> See Recital 26 of the Enforcement Directive.

When determining the amount of damages resulting from infringement, courts must take into account all appropriate aspects. The following are the criteria which must be taken into consideration.

*The negative economic consequences which the injured party has suffered*

In civil law jurisdictions such negative consequences usually consist in the so-called “*damnus emergens*” and “*lucrum cessans*”.

The *damnus emergens* is the actual losses suffered by the injured party.

For example, when a patent is breached by a company selling a particular product, the patentee may seek to recover those sums which have been spent to neutralise and/or marginalise the infringing activity, *e.g.* those expenses necessary to inform the market and consumers through newspapers about the presence of the infringing goods and legal expenses necessary to take action against the infringer, as well as to stop the violation (for example, the infringer may be ordered to pay the right holders attorney’s fees).<sup>31</sup>

The *lucrum cessans* consists of the lost profits suffered by the right holder.

For instance, the plaintiff may claim damages for the profit it would have made if the infringer had not marketed its infringing products. Let us think, for example, about a duopolistic market, *i.e.* a market in which there are only two commercial players. Well, in this scenario it is evident that – if one player (the infringer) sells goods that violate the other player’s IPR and (by doing that) make, say, 1,000,000 € profit – the latter (the injured party) is entitled to receive as damages 1,000,000 €. In this duopolistic scenario everything appears simple: the infringer has sold a certain number of infringing products and made some profits, *i.e.* the same profits that would have been made by the right holder if the violator had not marketed the fake goods.

Therefore, the common goal of the *damnus emergens* and the *lucrum cessans* is to place the IPR holder in the position it would have been in case the infringement had not taken place.

*Any unfair profits made by the infringer*

It is possible that IPR owners – even in case the infringement has been ascertained – have not recorded any lost profits. This is true, for instance, when the infringer places itself in another market or – due to its own advertising campaign – raises the sales (also) of the right holder.<sup>32</sup> Nonetheless, in these cases

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<sup>31</sup> See also art. 45. 2 of the TRIPs Agreement.

<sup>32</sup> See A. Vanzetti – V. Di Cataldo, above fn. 7, p. 512.

IPR holders – even though they have not suffered any lost profits – are entitled to a damages compensation. Indeed, art. 13.1(a) of the Enforcement Directive provides that “*any unfair profits made by the infringer*” must be taken into consideration by courts when determining the amount of damages.<sup>33</sup>

#### *Quantifying damages through the reasonable royalty rate*

The amount of the damages suffered by IPR owners might also be derived from another element: *i.e.* the royalties or fees which would have been due if the infringer had requested authorization to use the intellectual property right in question.

Let us take the following example. A right holder usually licenses to third parties its fancy trademark (for beverages) requesting a royalty equal to 7% of the profits made by the said licensees through the sale of licensed products. Let us then imagine that an infringer starts selling beverages bearing an identical trademark and that a court ruling ascertains the trademark infringement. Well, in such a case the trademark holder – as damages - might obtain from the infringer precisely 7% of the profits made by the latter by selling the infringing goods. That is why this damages quantification method is called “*reasonable royalty rate*”.<sup>34</sup>

Such damages quantification method may be a successful approach if the right holder can show the royalty the infringer would have paid if the proper licensing procedures had been followed. The exercise will be easy if – as we have seen - the right holder has granted licences to other subjects in the past. If no licensee exists, the right holder will have to demonstrate that the amount claimed for the licence is reasonable or otherwise corresponds to the average royalty rate in the market in question.

#### *The moral prejudice caused to IPR holders by the infringement*

Art. 13.1(a) of the Enforcement Directive provides that also moral prejudice caused to the right holder should be compensated.

Such damages are usually requested by those companies (whose IPR are infringed) which are renowned for the quality and reliability of their products and/or services. Indeed, infringers very often produce or sell imitated products which are of a poor quality and sometimes even dangerous for

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<sup>33</sup> In this regard see G. Guglielmetti, *La gestione di affari e la riversione degli utili*, in *Annuali italiani del diritto d'autore, della cultura e dello spettacolo*, 2000, pp. 174-206.

consumers (let us think, for example, about counterfeited drugs). Well, the fact that infringers sell imitated low-quality products may damage the commercial image and good reputation of the imitated IPR holder, especially when the latter has invested much money to promote the trademark or create the patented technology. Well, in such cases the right holder may request the court to be awarded moral damages.

### ***The publication of judicial decisions***

Another measure which may be granted together with the ruling on the merits of the case is the publication of the decision itself.

Indeed, art. 15 of the Enforcement Directive provides that, in legal proceedings instituted for IPR infringement, the judicial authorities may order, at the request of the applicant and at the expense of the infringer, appropriate measures for the dissemination of the information concerning the decision, including displaying the decision and publishing it in full or in part. Such publication very often is made on national newspapers, as well as specialist magazines.

The publication of the ruling usually aims at giving a message to the trade.

Let us take, as example, a case where there has been a massive diffusion of beverages bearing an infringing and deceptive trademark. In this case it is highly probable that consumers and the public at large have been deceived about the commercial origin and source of the above beverages. Well, the publication of the decision (which ascertains the trademark infringement) aims precisely at restoring the pre-infringement situation, by informing the public at large that there has been a trademark infringement brought about by the violator and that such infringement has been detected, ascertained and stopped.

IPR holders often maintain that – without the publication of the ruling – they run a high risk, *i.e.* the risk that the other players of the market in question believe that producing and/or selling the products manufactured or sold by the infringer without the holder's authorization is lawful (which is not the case). It is therefore believed that the publication of the ruling aims precisely at avoiding the above market distortion.

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<sup>34</sup> This method has been applied also in Italy. See, for example, the ruling of the Vicenza Court of June 17, 2002 (in Italian case law review *Giurisprudenza Annotata di Diritto Industriale*, 2003, 4502.3).

## ***Protecting IPR using border measures: the EC Regulation 1383/2003***

On July 1<sup>st</sup> 2004, Council Regulation 1383/2003 came into force, with the aim of improving collaboration between IPR holders and Community customs, closing frontiers to counterfeit or pirated goods and thus preventing their marketing within the European Union.<sup>35</sup> Similar border measures are also set forth by the TRIPS Agreement (artt. 51-60). In particular, the Regulation sets out the conditions for action by the customs authorities when goods are suspected of infringing IPR.

According to the Regulation, customs services are able to act either on their own initiative or at the request of the right owner (or of a third party authorized by him).

The intervention of the customs authorities can be divided in two phases. In the first phase, the control system is put in a state of readiness and the preparatory measures are taken to enable an actual intervention, whereas in the second phase the customs authorities actually intervene.<sup>36</sup>

### *The first phase*

According to art. 4.1 of the Regulation, when customs authorities believe that there are sufficient grounds to suspect that the goods they discover during an action are infringing IPR, they may, on their own initiative, suspend release or retain goods for a period of three working days. This is therefore an *ex officio* procedure which enables the customs authorities to notify right holders (especially small and medium-sized industries and enterprises, that may not realise that their IPR can be infringed and have therefore never applied for action) that goods suspected of counterfeiting or pirating their rights have been intercepted.<sup>37</sup>

After the intervention of the customs authorities IPR holders can lodge an application for action before the said authorities.<sup>38</sup>

The application for action must contain:

- proof that the applicant is holder of the IPR invoked (or authorized thereby) (a trade mark, a model registration, a patent, a copyright, etc.);

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<sup>35</sup> Council regulation (EC) No 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such right (OJ L 196, 2.8.2003, p.7) (hereinafter also “Regulation”). Such regulation repeals and replaces the previous Council Regulation 3295/1994.

<sup>36</sup> See K. Daele, *Regulation 1383/2003: A New Step in the Fight against Counterfeit and Pirated Goods at the Borders of the European Union*, 2004 E.I.P.R., pp. 217 et seq.

<sup>37</sup> With reference to *ex officio* actions see also art. 58 of the TRIPs Agreement.

- a declaration from the applicant certifying that he accepts liability (in the event of error concerning the counterfeit nature of the assets held at customs) and thus agrees to cover the costs of storage plus any damage caused to third parties;
- an accurate and detailed technical description of the goods;<sup>39</sup>
- any specific information concerning the type or pattern of fraud suspected;
- the name and address of the contact person appointed by the right holder to inspect the goods;
- if appropriate, the member states in which the customs authority action is requested.

It might also be useful to provide information such as the tax-exclusive value of the original goods item, the place where the suspect goods are located or the anticipated destination, the anticipated date of arrival or departure of the goods, the means of transport used or the technical differences between the authentic and suspect goods.

### *The second phase*

On the basis of the information contained in the application for action, customs may suspend release or retain allegedly counterfeit goods (art. 9.1 of the Regulation). The right owner then has a period of 10 days (renewable once) to inspect the goods. However, in the case of perishable goods, the period of 10 days is reduced to three working days. Upon his request, the right holder is also informed of the names and addresses of the consignee, the consignor, the declarant of the holder of the goods (if known) and of the origin.

During the period of suspension the IPR holder can take the following actions.

#### *Instituting proceedings before the national competent courts.*

On the basis of the information provided to it by the customs authorities – nature and quantity of the suspected goods, name and address, of the consignee and consignor, provenance of the goods, samples – the IPR holder can initiate proceedings before the competent authority in order to determine whether the goods are counterfeited or pirated.<sup>40</sup>

If at the end of this procedure the suspected goods are found to infringe an intellectual property right, such goods will not be (i) allowed to enter into the Community customs territory, (ii) released for free circulation, (iii) removed from the Community customs territory, (iv) exported, (v) re-exported, (vi)

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<sup>38</sup> IPR holders may lodge an application for action also in case the customs authorities have not triggered the *ex officio* procedure. In this regard see also art. 51.1 of the TRIPs Agreement.

<sup>39</sup> In this specific regard see also art. 52 of the TRIPs Agreement.

placed under a suspensive procedure, (vii) placed in a free zone or free warehouse<sup>41</sup>. Therefore, this system not only prevents the counterfeited and pirated goods from entering the European market directly, but also from being put on any other market from where they could possibly be re-exported into the European Union.

*Reaching an agreement to voluntarily destroy the suspected goods.*

The IPR holder and the declarant, the holder or the owner of the suspected goods can also take action together. Indeed, the IPR holder may request the customs authorities detaining the suspected goods to destroy such goods immediately, even without there being any need to determine whether its right has been infringed (that is a simplified procedure). Of course, the destruction takes place if the declarant, holder or owner of the goods agrees to the said destruction.

### ***The recent Directive Proposal setting criminal sanctions for IPR infringement***

On April 25, 2007, three years after passing the Enforcement Directive and four after the customs Regulation, the EU Parliament has adopted a new proposal for a directive which provides criminal sanctions for IPR commercial infringement.<sup>42</sup> The Directive Proposal on criminal measures should aim at (further) ensuring the enforcement of IPR and complementing both the Enforcement Directive and the customs Regulation.

According to the Directive Proposal, criminal sanctions should apply to all IPR, except patent rights (including rights derived from supplementary protection certificates), utility models and plant varieties. The bill provides that all intentional infringements of IPR on a commercial scale, and aiding or abetting and inciting the actual infringement, must be treated as criminal offences. It also provides the nature of penalties: custodial sentences (just for natural persons), criminal fines for both natural and legal persons, as well as confiscation of the object, instruments and products stemming from infringements or of goods whose value corresponds to those products. For example, in case of a person found guilty of setting up a factory to produce and sell thousands fake DVDs, the penalty might be the confiscation of the said DVDs, as well as the equipment necessary to copy the original copyrighted movies.

Moreover, the Directive Proposal would oblige EU Member States to provide that the following penalties are also available in appropriate cases:

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<sup>40</sup> If the IPR holder fails to do so within ten working days (or three in case of perishable goods) of the suspension period, the customs authorities are indeed no longer allowed to detain them and must release the same, subject to completion of all customs formalities. In this regard see also art. 55 of the TRIPs Agreement.

<sup>41</sup> See art. 16 of the Regulation.

<sup>42</sup> Hereinafter also "Directive Proposal".

- a) destruction of the goods, including materials or equipment used for infringing IPR;
- b) total or partial closure, on a permanent or temporary basis, of the establishment used to commit the offence;
- c) a permanent or temporary ban on engaging in commercial activities;
- d) placing under judicial supervision;
- e) judicial winding up;
- f) a ban on access to public assistance or subsidies;
- g) publication of judicial decisions;
- h) an order requiring the infringer to pay the costs of keeping seized goods.

As we can see, such penalties are rather tough.

The bill also includes a provision which would allow IPR holders to actively assist the police in an investigation, thus creating joint investigation teams. This provision might be helpful to right holders and change the scenario of criminal investigation in certain countries. For example, in the context of Italian criminal proceedings IPR holders (as well as every kind of injured party) are entitled just to file briefs in order to provide the judge with evidence about the criminal offences. This is not very helpful to the injured parties and the proposed joint investigation teams might give the said parties more control and awareness of the criminal proceedings.

The Proposal Directive also provides IPR holders with a right to receive information from law enforcement authorities. In particular, art. 10 of the bill provides that where law enforcement authorities seize infringing items or obtain other evidence of infringement, the authorities must make such evidence available for use in pending or contemplated civil proceedings against the same alleged infringer.

Moreover, the bill provides that, where practicable, the said authorities must inform the right-holder concerned that they are in possession of such items or evidence. This provision aims at creating a link between a criminal and a civil proceeding regarding the same or analogous infringement cases, making sure that the evidence gathered in the former is used also in the latter: that would make sure that there is no waste of time and duplication of procedural workload.

If finally adopted, this directive would be the first European directive harmonizing criminal law provisions. However, it must be borne in mind that the target of harmonising criminal law aspects of IPR has already long been achieved by the implementation of the TRIPs Agreement, whose art. 61 has obliged States to provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale. Moreover, according to the said TRIPs provision, remedies available shall include imprisonment and/or monetary fines sufficient to

provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity.<sup>43</sup>

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<sup>43</sup> Furthermore, art. 61 of the TRIPs Agreement provides that in appropriate cases, remedies available shall also include the seizure, forfeiture and destruction of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence. Finally, this provision provides that States may provide for criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights (for example, in case of patent infringement), in particular where they are committed wilfully and on a commercial scale.