

The first days of the Italian summer saw the issuance of a landmark decision for the Italian legal framework.

The Grand Chamber of the Italian Court of Cassation (Cass. Civ. SS. UU. 05.07.2017, no. 16601) ruled that it could be possible to obtain recognition – where necessary - and enforce in Italy foreign judgements which may have awarded to the winning party a restoration in the form of punitive damages, an institute whose entry into the Italian system was traditionally opposed by prior case law on the basis of the contrariety to *ordre public* of the awarding of damages without compensatory nature.

The decision was released in a case which did not involve patent rights or any other intellectual property rights: indeed, the Court rejected a petition filed by a manufacturer and its distributor of motorcycle helmets in the dispute with an injured rider in an accident occurred in US territory. And yet, the ruling has many implications also for patent and more in general IP disputes, as it can be easily guessed: openings to “punitive damages” emerged already in this year’s CJEU decision *OTK v SFP* (C-367/15), and are extensively detailed by the reasoning of the decision of the Court of Cassation, where specific references are made to Italian statutory provisions on the infringement of patent and other IP rights.

Indeed, according to the Court of Cassation, *“the sanctioning function of the reimbursement of damages is no longer inconsistent with the general principles of our system, as previously settled, since in the last few decades here and there new regulations aimed at giving a sanctioning note to the reimbursement of damages have been implemented”*.

In a nutshell, *“together with the predominant and primary compensatory-reparative function of the institution, a polyfunctional nature of it has surfaced, which projects itself in several areas, among which the pre-emptive (detering or dissuasive) and the sanctioning-punishing functions are the most notable ones”*.

Reviewing in detail the key laws and regulations that have been the picklock to open the door for punitive damages (i.e. ultra-compensatory damages) in the Italian framework, the Court expressly mentions Section 125 of the Industrial Property Code (Legislative Decree 10 February 2005, no. 30), which provides for the reimbursement of damages to an owner of patent rights and other IP rights in the form of compensation and/or disgorgement of profits (along with Section 158 of Copyright Law (Law 22. April 1941, no. 633), which awards damages to the owner of an intellectual work unlawfully exploited). Thus, in other words, according to the Court, awarding damages already has sanctioning and deterring functions along with the traditional compensatory function.

According to the reasoning of the Court, the conditions under which foreign judgements awarding ultra-compensatory damages, may be enforceable, are the following:

- (i) the punitive reimbursement shall find its grounds in a statutory provision of law;
- (ii) such statutory provisions shall be both “typical” and “predictable”: in the words of the Court, *“the foreign Judge must have ruled according to adequate legal grounds, [...] like a “law or similar source which has regulated the matter according to principles and solutions of that Country”*. Accordingly, there should be a clear indication of applicable cases and a clarification of the boundaries for the liquidation of damages;
- (iii) the judgement shall be consistent with the Italian Constitution (Sections 23¹ and 25², which - respectively - require a statutory provision for the imposition of patrimonial obligations and implement the fundamental rights to defence). In this regard, duly notes that the notion of “*ordre public*” (previously a barrier to the applicability of foreign rulings) has progressively shifted in recent years, thus allowing punitive damages to be acknowledged;

¹ “No obligations of a personal or a financial nature may be imposed on any person except by law”.

² “No one may be withheld from the jurisdiction of the judge previously ascertained by law. No one may be punished except on the basis of a law in force prior to the time when the offence was committed. No one may be subjected to restrictive measures except in those cases provided for by the law”.

- (iv) the damages awarded shall be subject to the principle of proportionality between:
- (a) the compensatory-reparative component of the reimbursement and the punitive one;
 - (b) the punitive reimbursement and the unlawful conduct.

The decision is likely to have a major outwards impact, since from now on foreign judgements awarding non-compensatory damages can find recognition and enforcement before Italian Courts, where they are compliant with the criteria outlined by the Grand Chamber of the Court of Cassation.

However, said judgment can also significantly affect internal case law in patent and intellectual property rights' disputes clarifying some issues which often arise in patent litigation in Italy and further strengthening the last years' trend of Italian IP courts in awarding more generous damages.

As a matter of fact, Italian IP case law already offered many potential applications of reimbursement of damages with a "sanctioning" and/or a dissuasive character. For instance, the royalty applied to IP rights infringers to liquidate damages is often calculated by Courts conveniently raising the standard royalty applied in the relevant segment of market, in order to properly distinguish a legitimate licensee from an infringer. Also by way of example, Courts tend to award the reimbursement of damages in the form of disgorgement of profits also when the owner of an invention has not – or not yet - implemented such invention. Another example of ultra-compensatory damages is when Courts liquidate considerable damages and there is a considerable disproportion between the size of the patentee (e.g. a small R&D company) and the infringer (i.e. a much stronger industry actor). In all the above scenarios, it is difficult to argue that the awarding of damages has a pure compensatory nature. In fact, it is not only very difficult for the patentee to provide evidence that it would have made profits equivalent to those obtained by the infringer, had the infringement never occurred. Rather, it is simply unrealistic to claim such equivalence.

By virtue of this decision, it is likely that Italian IP Courts will further expand on the sanctioning function of the awarding of damages (moving within the boundaries indicated by the Court of Cassation with this landmark decision).

Consistently, it is predictable that:

- it would be more difficult for infringers to use the "classic" defensive argument on damages that a reimbursement requires evidence of the loss of profits suffered by the patentee and of their link with the infringing conduct, since otherwise the liquidation of damages would not be strictly compensatory;
- Courts will more and more easily liquidate damages higher than the loss of profits suffered by the patentee, given the acknowledgement of the *hybrid* nature of damages.

On the other hand, any liquidation of damages will always be bound to the proportionality requirement. In this regard, pursuant to the opinion of eminent Italian scholars, the liquidation of damages could follow a "differential logic" criterion: Courts should try to assess what would have happened had the unlawful conduct of the infringer never occurred, and which amount would be an adequate monetary restoration. A restoration which should take into account the trends in the market the infringement may have determined and the further consequences of it (damage to the commercial image, loss of goodwill, loss of value of the patents etc.).