

IT – THE DISGORGEMENT OF PROFITS FROM THE PATENT INFRINGER

With its decision no. 1094 of 14th May 2020, the Court of Appeal of Milan issued a ruling on the recovery of profits from the patent infringer, one of the most debated topics of the Italian legislation on Industrial and Intellectual property rights.

The case at stake concerned Cama 1 S.p.A. ("**Cama**"), a packaging company, owner of several Italian and European patents protecting certain inventions concerning cartoning machines for coffee capsules including European patents no. EP 2 497 612 (EP '612) and no. EP 2 500 151 (EP '151).

The defendant Gima S.p.A. ("**Gima**") sold to the Canadian company Mother Parkers Tea & Coffee Inc. ("**Mother Parkers**") eight complete packaging lines for coffee capsules, each including a cartoning machine. Five of these sales took place after Cama became the owner of the EP '612 and EP '151.

Cama obtained in the first instance from the Court of Milan a declaration of infringement of said patents and the awarding of damages for patent infringement against both Gima and IMA S.p.A. ("**IMA**"), the mother company controlling of Gima, notwithstanding the partial invalidity of EP '612. Cama appealed the decision before the Court of Appeal of Milan, challenging *inter alia* the criteria adopted by the judge of the first instance for determining the recovery of profits.

IMA and Gima cross-claimed the unconstitutionality of the Italian provision on the disgorgement of profits of the infringer, for its alleged inconsistency with EU Directive no. 2004/48.

Indeed, with the entry into force of Decree no. 140 of 16th March 2006, the Italian legislator implemented Directive 2004/48 and provided a new wording of Art. 125 of the current Italian Industrial Property Code ("**IIPC**"), introducing under paragraph 3 the possibility for the rightsholder to obtain the recovery of profits:

"In any event, the owner of the infringed right may request the recovery of the profits obtained by the infringer, either as an alternative to compensation for the loss of profits or to the extent that they exceed that compensation."

According to such paragraph, disgorgement of profits is conceived as an alternative to the compensatory remedy of the refund of lost profits, or cumulatively with it should the profits exceed such compensation.

It is debated by scholars whether the Italian discipline of the recovery of profits complies with the European Directive 2004/48, in particular since according to the Italian implementing provision the recovery can be obtained "*in any case*", while the European discipline seems to allow it only in case of an "unaware infringer".

The defendants IMA and GIMA pushed this argument, claiming that paragraph 3 of Art. 125 IIPC would be in breach of constitutional laws for its inconsistency with the EU Enforcement Directive.

The Court of Appeal of Milan did not agree with such position and considered the Directive to be non-binding in its content, save for indicating that the European legislator does not impose any limitation on the liquidation of the reimbursement, which may even be higher than the amount of the loss suffered by the IP rights holder.

The interpretation given by the Court on the widely debated matter of the compliance of said provision with European laws is certainly relevant; but the most interesting issue addressed by the judges in the decision involves the criteria for the calculation of the recovery of profits.

The Judge of first instance liquidated damages using the criterion of the "fair royalty" and took into account the turnover generated by the mere sale of the cartoning machine instead of the turnover generated by the sale of the whole packaging line for coffee capsules.

In fact, according to Cama's opinion, Gima would have never sold the complete packaging line without the cartoning machines protected by Cama patents.

The Court of appeal confirmed the first instance decision and rejected the argument of the patentee, arguing that the right to transfer the overall profits obtained by Gima /IMA would arise "*only if it was proved that the sale contracts had been concluded exclusively because the defendants promised to supply Mother Parkers also with the cartoning machines, including the elements protected by Cama patents*".

The Judge of the appeal interpreted restrictively Article 125.3 consistently with the concern recently expressed by Italian scholars on the risks entailed in a loose application of the rule: this application could have led to granting benefits to the rightsholder that it would not have obtained, had the infringement not been committed.

In fact, in the case at hand, the patentee would have obtained an "unfair", larger compensation, based on the assumption that the defendants had obtained the purchase order only because they had also offered Mother Parkers the supply of the cartoning machine.

Such argument raised by the appellant to challenge the liquidation of the reimbursement, was deemed unproven by the Court based on evidences filed by the appellees.

Thus, the disgorgement of profits was confirmed by the Court, though within the limits of those profits generated by the sale of the five infringing cartoning machines only.

The solution adopted by the Court is certainly relevant as it grants the judicial authority a central role in liquidating reimbursement of damages in favor of the rightsholder.

Disgorgement of profits can be qualified as a special remedy against unjustified enrichment, arising from the practical need to integrate the compensatory remedy often unable to guarantee a full relief to the patentee.

On the other hand, in order to avoid unfair and unreasonable solutions, anyone requesting disgorgement of profits should be required to prove a direct connection between the profits obtained by the adverse party and the infringing activity.

The *ratio* of Article 125 of IIPC and paragraph 3, is to guarantee protection to those who suffer costs or damages as a consequence of infringement; nevertheless, damages caused by infringement of IP rights is not *in re ipsa*, but it requires to be proved by the rightsholder.

The right to obtain disgorgement of profits, introduced to implement and support the compensatory remedy provided in favor of the rightsholder, is still subject to the necessary proof of the causal link between the unlawful conduct and the damages suffered.

Such proof is necessary both to access patent protection and to determine the amount owed to the rightsholder.

In conclusion, the ruling of the Court has the effect of bringing paragraph 3 (on disgorgement of profits) closer from a burden-of-proof point of view to paragraph 1 of Article 125 (on the reimbursement of damages). The disgorgement of profits was conceived as a potential alternative to the compensatory measure or in some cases a cumulative remedy: nonetheless, it still requires a proper assessment of the profits obtained by the infringer through the unlawful conduct. In this framework, the role of the judge is crucial to ensure an effective balance between granting protection to a patentee and ensuring a fair determination of the prejudice suffered.

