



## Study Question

Submission date: May 12, 2017

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**Quantification of monetary relief**

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### I. Current law and practice

**Please answer all questions in Part I on the basis of your Group's current law.**

**1** What rules and methods are applied when quantifying actual loss?  
In particular, please describe:

- a) the method used to determine the diversion of sales, i.e the part of the infringing sales that the rightholder would have made but for infringement;
- b) what level of profit margin is taken into account.

Italian law does not provide anything specific on the following issues and therefore the replies will be based only on the position of Italian case-law. As for the main rules and methods applied to quantify actual loss, see the following points a) and b). In addition, case-law considers relevant for this quantification a possible price decrease of the goods covered by the infringed IP rights, caused by the infringement.

a) The method used to determine the diversion of sales, i.e. the part of the infringing sales that the rightholder would have made but for infringement

The method used by the Courts to determine diversion of sales is based on a contra-factual analysis of the situation of the IP rightholder in the absence of infringement. Damage consists therefore of the difference between the real situation and the hypothetical situation resulting from the contra-factual analysis. The main criteria used are: 1) reduction in profits of the IP holder; 2) reduced growth rate of the IP holder; 3) number of goods sold by the infringer.

b) What level of profit margin is taken into account

The marginal profit (i.e. profits minus the production costs inherent to the infringing goods) is taken into account.

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**What rules and methods are applied when quantifying a reasonable royalty?**

**In particular, please describe:**

- a) the royalty base;
- b) how relevant comparables among licence agreements are defined;
- c) how a reasonable royalty is quantified in the absence of relevant comparables;
- d) the nature of the royalty, e.g. lump-sum, percentage of revenues or profit, a mix?

a) The royalty base

The royalty base is the infringer's turnover of the infringing goods.

b) How relevant comparables among license agreements are defined;

Comparables among license agreements are considered very important. In particular, the following are considered: 1) first of all, licence agreements relative to the same type of infringed IP right concerning an invention collocated in the same market as that of the product covered by the infringed IP right; 2) licence agreements relative to a type of IP right which is analogous to the infringed right concerning an invention collocated in the same market as that of the product covered by the infringed IP right; 3) licence agreements which relate more generally to the sector of the product covered by the infringed IP right.

c) How a reasonable royalty is quantified in the absence of relevant comparables;

In the absence of relevant comparables a reasonable royalty is quantified on an equitable basis. In certain cases a royalty of 25% of the gross operating profit obtained from the sales of the infringing goods has been applied.

d) The nature of the royalty, e.g. lump-sum, percentage of revenues or profit, a mix?

The royalty usually consists of a percentage of the infringer's revenues. However, in some specific cases, it is a mix of a lump-sum and a percentage.

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**What rules and methods are applied when quantifying the infringer's profits, as part of quantifying damages?**

**In particular, please describe:**

- a) the method to determine the profits resulting from the infringement, i.e. resulting from the use of the IP right;
- b) what level of profit margin of the infringer should be taken into consideration.

a) The method to determine the profits resulting from the infringement, i.e. resulting from the use of the IP right;

The method used to determine an infringer's profits is usually based on an analysis of the accounting books of the alleged infringer.

b) What level of profit margin of the infringer should be taken into consideration.

According to the prevailing case-law, an infringer's net profits (also indicated as "marginal profits", i.e. profits minus the production costs inherent to the infringing goods) should be taken into consideration. In some cases, the Courts have taken into consideration the infringer's gross profits or taxable profits.

4.a

**What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty in relation to convoyed goods.**

The rules and methods applied in relation to convoyed goods are the same as those applied in relation to infringing goods. The Italian Courts consider "convoyed goods" to be only those goods whose sales from a technical or market perspective and on a case by case basis are deemed to depend on the sales of the infringing goods (and case-law stated that this relationship of dependency must be "direct"). Some recent decisions (of the Milan Court) stated that, in order to compensate also damages deriving from "convoyed sales", a "*functional unit*" between the infringing goods and the convoyed goods must be demonstrated.

4.b

**What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty where the infringing product forms part of a larger assembly.**

The rules and methods applied in relation to an infringing product forming part of a larger assembly are the same as those applied in relation to infringing goods. However, they have to be applied to the parts of the product which are essentially characterized, from a technical or market perspective, by the infringed IP right.

**4.c** What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty where the IP rights found infringed are routinely licensed together with other IP rights as a portfolio?

The rules and methods applied in relation to an infringed IP right which is routinely licensed with other IP rights as a portfolio, are the same as those applied in relation to infringing goods. However, there is no established case-law on whether or not the infringed IP right has to be separated from the other IP rights in the portfolio.

**4.d** What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty when the damage suffered by the rightholder is related to competing goods which do not implement the infringed IP rights?

There is no case law on this point.

**5** Are any of the rules and methods addressed in your answers to 1) to 4) above different when considering the damage suffered by the rightholder or by its licensee?

The rules and method addressed in the previous answers to 1) to 4) do not differ when considering the damage suffered by the rightholder or by its licensee.

**6.a** What kinds and types of evidence are accepted for proving the quantum of actual loss.

Evidence for proving the quantum of actual loss can be both documental (e.g. accounting books; expert accounting evidence on the accounting books) and oral (witness evidence).

**6.b** What kinds and types of evidence are accepted for proving the quantum of reasonable royalties.

Evidence for proving the quantum of reasonable royalties can be both documental (e.g. licensing contracts; documents showing the average royalty rate in the relevant sector; expert accounting evidence on past licensing practices) and oral (witness evidence).

**6** For example, is expert accounting evidence on past licensing practices accepted?

See above.

**7** What mechanisms (e.g. discovery) are available to the rightholder to assist with proving the quantum of actual loss or reasonable royalties?

The main mechanism available to the rightholder to assist with proving the quantum of actual loss or reasonable royalties is that of submitting a request for an order from the Court that the infringer exhibit its accounting books or other relevant documentation.

**8** How, if at all, does the quantification of damages for indirect/contributory infringement differ from the quantification of damages for direct infringement?

The quantification of damages for indirect/contributory infringement does not differ from the quantification of damages for direct infringement.

**9** Are forward-looking damages (e.g. damage in relation to an irreversible loss of market share) available

a) if an injunction has also been granted

Please explain your answer

Forward-looking damages are available without it needing to be considered whether or not an injunction has been granted, because such damages are an independent sanction.

**10** Is the bad faith of the infringer taken into account in the assessment of the damage?

Yes

If so, how is bad faith defined and is it possible to infringe a patent in good faith?

The bad faith (and also negligence) of the infringer is taken into account in the assessment of the damage. Bad faith is defined as awareness of the existence of the infringed IP right and of its violation. The Italian Courts, in certain cases, have applied a higher royalty rate because of bad faith on the part of the infringer. It is possible to infringe a patent in good faith, but in the absence of bad faith or negligence an order for compensation cannot be issued. Considering that patent registration is public, the negligence or bad faith of the infringer are usually presumed.

**11** How do courts take into account the damage suffered between the date of the infringing acts and the date of the award of damages?

The Courts consider compensation to be an indexed debt which must therefore be increased by inflation adjustment and interest until payment.

## II. Policy considerations and proposals for improvements of your Group's current law

**12** Are there aspects of these laws that could be improved?

As stated above, in Italy there are no laws regulating these issues. Only the Courts have expressed themselves in this regard. On a number of questions, for example when the infringed patent is part of a broader patent portfolio or when the infringed patent covers only part of a complex product, the Courts have not taken up a clear stance and thus a settled position on matters of this kind is to be hoped for.

**3.a** If the Court determines a reasonable royalty by reference to a hypothetical negotiation, should the Court's assessment of the hypothetical negotiation be under an assumption that all the IP rights in suit are valid and infringed?

Yes

Please Explain

Before sanctioning infringement it first needs to be ascertained that the relative infringed IP is valid, provided that the infringer has contested the validity thereof.

**3.b** If the Court determines a reasonable royalty by reference to a hypothetical negotiation, should the Court first be required to find that all the IP rights in suit are valid and infringed?

**14** If the Court does not determine a reasonable royalty by reference to a hypothetical negotiation, what factors and what evidence should be relevant in that determination?

Factors relating to analysis of standard practice in the sector in which the infringed IP right is collocated should always be relevant in determining reasonable royalty.

**15** Should the quantification of damages depend on whether injunctive relief is granted, e.g. should forward-looking damages for a loss of market share be available if an injunction is also being granted or only if an injunction is not granted?

It should be possible to grant forward-looking damages for loss of market regardless of whether or not injunctive relief is granted.

### III. Proposals for harmonisation

**16** Is harmonisation of the quantification of damages desirable?  
*If yes, please respond to the following questions without regard to your Group's current law. Even if no, please address the following questions to the extent your Group considers your Group's current law could be improved.*

Yes

Please Explain

**17** Please propose the principles your Group considers should be applied when quantifying actual loss

The Group considers that a principle to be applied in quantifying actual loss of sales is that of comparing the real situation and the hypothetical situation resulting from a contra-factual analysis (i.e. an analysis which considers what the situation of the IP rightholder would be in the absence of infringement). This comparison should take into consideration: 1) reduction in profits of the IP holder; 2) reduced growth rate of the IP holder; 3) number of goods sold by the infringer; 4) a possible price decrease of the goods covered by the infringed IP rights, caused by the infringement.

**18** Please propose the principles your Group considers should be applied when quantifying reasonable royalties

The Group believes that in quantifying reasonable royalties the actual or presumed market rate of the sector of the infringed IP right must be applied to the infringer's profits. Points a), b) and c) above are all relevant and a) should be applied on the premise that the IP right is found to be valid and infringed. In certain cases (and always when there is bad faith on the part of the infringer) a higher royalty rate should be applied.

**8.a** Explaining in particular the relevance, if any, of a hypothetical negotiation and whether the hypothetical negotiation should be under the assumption that the IP rights being negotiated were or were not found valid and infringed;

See above.

**8.b** Explaining in particular the relevance, if any, of prior licensing practices or prior going rates for licensing the IP rights in suit

See above.

**8.c** Explaining in particular the relevance, if any, of prior licensing practices or prior going rates for licensing other IP rights of third parties that may or may not be similar to the IP rights in suit

See above.

**9.a** Please propose, in relation to actual loss and reasonable royalties how conveyed goods should be dealt with

Conveyed goods should be dealt with like the main infringing good. However conveyed goods should only be those goods which constitute a "functional unit" with the infringing goods or have a "direct relationship of pertinence", from a technical or market perspective, with the sales of the infringing products.

**9.b** Please propose, in relation to actual loss and reasonable royalties how competing goods of the rightholder, not making use of the patent, should be dealt with

There should also be compensation in the case of competing goods to the extent to which they suffer negative consequences as a result of infringement of the IP right.

**9.c** Please propose, in relation to actual loss and reasonable royalties how damages should be determined when the infringing product forms part of a larger assembly

When the infringing product forms part of a larger assembly, damages should be determined by taking into account the relationship between the infringing product and the assembly. Only if the former is an essential component of the latter from a technical or market perspective should determination of compensation take into account the value of the assembly and not the individual component.

**20** Please propose principles your Group considers should be applied when quantifying the damages for indirect/contributory infringement in circumstances where there is no direct infringement of the IP rights in suit.

Compensation in this case should be calculated like compensation for direct infringement, identifying the extent to which the contribution caused the damage suffered by the rightholder.

**21** Please comment on any additional issues concerning any aspect of quantification of damages you consider relevant to this Study Question.

No further comments.

**Please indicate which industry sector views are included in part "III. Proposals of harmonization" on this form:**

N/A

Please enter the name of your nominee for Study Committee representative for this Question (see Rule 12.8, Regulations of AIPPI). Study Committee leadership is chosen from amongst the nominated Study Committee representatives. Thus, persons not nominated as a Study Committee representative cannot be in the Study Committee leadership.

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