

Brands in the Boardroom 2008

Brand protection in the Italian and global markets

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It is an undisputed fact that globalisation has complicated matters in relation to the creation, development and defence of brands and trademarks. This is causing particular headaches for brand owners in Italy, a country that enjoys a reputation in various areas of international trade (eg, fashion, luxury goods, textiles, wines, foodstuffs), but that is also a known source of counterfeit and pirated goods. Italian brand owners are fighting IP crime to defend their brands both at home and abroad, and have been continually lobbying the country's various governments – which usually remain in power for only limited periods – to introduce more effective legislation and stronger enforcement of the statutory and regulatory provisions against infringement, counterfeiting and piracy of brands.

The results so far have been mixed: significant improvements have been achieved in the implementation of statutory provisions and rules, but the level of enforcement still needs to be substantially increased.

Enhanced provisions

A new Industrial Property Code was implemented in 2005 and subsequent amendments were made in order to ensure that IP owners are properly compensated for damages. Further amendments to the Code reinforced the instruments available to IP right owners to trace evidence of infringement and to determine the extent thereof. An exhibition order may now extend, under certain conditions, to the defendant's banking, financial and commercial documents. Such orders may be sought both in the course of proceedings on the merits and in preliminary injunctions.

Due to the average length of ordinary proceedings, preliminary injunctions are sought whenever reasonably available in an attempt to bring a swift halt to the infringing activities.

For years Italy has been known to have a flourishing market for counterfeit and pirated products, whether originating from within the country or imported from abroad. Thanks to pressure from European institutions and other countries, particularly France and the United States, the Italian government and the various authorities involved have been taking a progressively stronger stand against the pirates. The lobbying effort has been further strengthened by the role played by Italian industries producing original goods, some of which are of paramount importance to the reputation of the so-called "Made in Italy" economy.

Significant new provisions have been implemented which are starting to yield favourable results; an example are the hefty administrative penalties that may now be imposed on consumers for purchasing counterfeit goods. Italy seems to be the only country in Europe to have followed France's lead in this area (although unlike in France, no criminal penalties may be imposed in Italy on consumers of pirated or counterfeit products).

Appointment of High Commissioner

The number of seizures of counterfeit goods throughout the Italian territory, particularly at ports of entry, is continually increasing. This is confirmed by the fact that one-third of all customs seizures within the European Union are now carried out by Italian Customs (source: press release of the High Commissioner to Combat Counterfeiting and Piracy, 17th January 2008). The appointment of Giovanni Kessler, a magistrate and former member of Parliament, as Italian High Commissioner to Combat Counterfeiting and Piracy was intended to promote integration

and collaboration between all public institutions involved in tackling counterfeiting, and to engage the private sector more fully as a key player in this fight.

The functions of the High Commissioner are to:

- Coordinate the public institutions involved and strengthen cooperation between them;
- Monitor counterfeiting and piracy and review public institutions' performances in preventing and combating the same;
- Propose legislative and regulatory reforms; and
- Support victims of infringement.

The High Commissioner's task of monitoring counterfeiting and privacy is fulfilled by the creation of a nationwide database in which all available data on seizures and legal proceedings is collected from the different Italian police forces, standardised according to set criteria and analysed. A clear picture of the counterfeiting situation can thus be obtained which helps to highlight the key factors of this phenomenon in Italy and identify adequate countermeasures.

The High Commissioner has entered into a number of cooperation agreements with various entities and associations, such as the Italian Federation of Dealers and Retailers, the Italian Federation of Chemical Industries, the National Information Centre of the Public Administration, British American Tobacco and the International Federation of the Phonographic Industry. The parties to these agreements have agreed to cooperate with the High Commissioner in order to facilitate strategic planning.

Various Italian industries have benefited from the decisive action taken by the High Commissioner in cases where their trademarks were being infringed in countries ranging from Russia to Portugal to Chile. The cooperation and support of the public authorities, in particular the High Commissioner, increase the chances of Italian brand owners achieving adequate protection abroad. The High Commissioner also assists foreign companies encountering similar problems in Italy. High Commissioner Giovanni Kessler may be contacted at his offices (Via Sallustiana 53, 00187 Rome, Italy – see also www.aclc.gov.it).

The courts' role

Meanwhile, the courts also play their part in protecting the rights of IP owners. Three recent favourable decisions are outlined below.

Spare parts

The question of whether the EU exemption covers the use of car manufacturers' trademarks on non-original spare parts has exercised the Italian courts in recent years. It concerns the delicate equilibrium between the different stakeholders in the spare parts market: car manufacturers, spare parts manufacturers and end consumers.

The central point of discussion is the correct interpretation of the Community Design Directive (98/71/EC), which provides that the exclusive rights to components of a complex product may be relied on to prevent the manufacture and sale of such components for the repair of the complex product with the purpose of restoring its original aspect. While spare parts manufacturers interpret the exemption as a green light to produce and offer for sale non-original spare parts which are identical to the original components, and which also feature the car manufacturers' trademarks, car manufacturers argue that the directive relates exclusively to design features and does not sanction the free production of spare parts featuring their own registered trademarks.

In February 2008 the Industrial Property Division of the Court of Turin issued an important decision in interlocutory injunction proceedings brought by Ford Motor Company against an Italian spare parts manufacturer. The Court of Turin, on the grounds of trademark infringement as well as unfair competition, expressly denied the application of the EU exemption for the manufacture and sale of motor car spare parts which are components of a complex product.

Ford Motor Company claimed the infringement of its own FORD and oval device trademark through the use of such mark on hubcaps and packaging, as well as in price lists and catalogues, by local spare parts manufacturer Team Srl.

Team contested Ford's claims on the basis of the EU exemption, arguing that exploitation of Ford's trademark was necessary in order to inform consumers about the proper destination and utilisation of its products, so that the mark was used with a descriptive rather than a distinctive function. According to Team, the wheel covers were components for the repair of a complex product with the purpose of restoring its original aspect.

In the first round of the injunction proceedings, the Court of Turin accepted the spare parts manufacturer's defences and rejected the interlocutory injunction application. On appeal before a panel of three judges, however, it was found that:

Figure 1. Original Ford wheel covers



Figure 2. Non-original wheel covers



Figure 3. Original Cartier watch



Figure 4. Counterfeit watch



- The EU exemption refers exclusively to design features and does not represent a general principle giving a manufacturer of non-original spare parts and components the green light for any kind of (unauthorised) brand use;
- The exploitation of the FORD (and oval design) trademark on hubcaps was unnecessary and as such infringed Ford's trademark rights;
- The exploitation of Ford's trademark on wheel covers was also contrary to professional fairness and amounted to unfair competition, given that the presence of a disclaimer on the back of the wheel cover – warning the consumer that the wheel cover was not original – did not constitute an excuse or, at any rate, was not sufficient to avoid a breach of professional best practice; and
- The use of the Ford trademark on packaging and/or in catalogues might be lawful, with a view to indicating the destination/intended use of the wheel covers. A definitive decision on this point will be made when rendering the decision on the merits (the proceeding is now pending).

Even though this order was issued within interlocutory injunction proceedings, it represents an important first step towards a new body of case law that finally recognises trademark owners' rights in connection with the manufacture and sale of non-original spare parts.

Proving damages without infringer's accounts

Once a court has recognised that an IP right has been infringed, it is usually asked to decide on the infringer's liability. The discovery phase plays a crucial role in this process: without the appropriate evidence, the judges cannot determine compensatory damages other than on an equity basis, which often results in a substantial underestimation of the damages to be paid.

Whatever criterion the judge decides to apply in a specific case (eg, hypothetical licence fee, recoupment of infringer's profits), it is necessary to have access to the infringer's accounts in order to extrapolate the profits made. The most important documents needed to calculate damages are thus in the hands of the infringer. Usually, the claimant will seek an order for production of the infringer's accounts, but this is not always complied with. Without these additional documents, the rights owner runs a serious risk of obtaining no compensatory damages, even where infringement is recognised.

In the recent case of *Cartier International BV – Richemont Italia SpA v Caterina Noello – Noello Srl*, the Court of Milan expressly recognised the importance of what may be termed "additional documents and evidence" – that is, all information that may be submitted by the rights owner where the infringer does not comply with the order to produce its accounts.

The Court of Milan stressed the relevance of investigation reports and samples of goods filed by the claimant, as well as witness statements and depositions, given that all these elements have been found useful in determining the price of sale of the counterfeit goods, as well as the hypothetical quantity of contested goods effectively available to the infringer.

Protection for shape of product

Past decisions of the Italian courts were very restrictive and often denied the existence of infringement and/or unfair competition in connection with three-dimensional trademarks and registered designs covering the shape of products. However, in the last two years attitudes to this issue have gradually been shifting in favour of IP owners.

One example of this emerging trend in Italian case law is the decision of the Industrial Property Law Division of the Court of Venice in *Hermès International Scpa v Mazzon Le Borse Srl*.

The Hermès Group brought interlocutory injunction proceedings against Mazzon Le Borse claiming infringement of a number of its trademarks (including three-dimensional trademarks) and registered designs, as well as unfair competition by Mazzon Le Borse, alleging that the latter manufactured and offered for sale models of leather bags that were identical, or at least very similar, to Hermès' bags. An interlocutory injunction was initially refused for lack of urgency, but on appeal a three-judge panel overruled this decision, affirming:

- Counterfeiting of Hermès' well-known H trademark;
- Counterfeiting of Hermès' three-dimensional trademarks covering the shape of its Evelyne and Birkin bags;
- Infringement of Hermès' registered designs for its Vespa, Berlingot, Picotin, Sherpa à dos, Muso and Twenty bags; and
- Mazzon's liability for unfair competition under Article 2598 of the Civil Code.

The judges emphasised in particular that Hermès bags have a strong distinctive

character as their shape is well known all over the world as the shape of a product manufactured by Hermès, so that each bag having such shape is unequivocally connected to Hermès by consumers.

The judges also defined “distinctive character” by distinguishing this concept from “identifying character”, which is required for the validity of a registered design. While the former concerns the attitude of the average consumer towards particular products and/or trademarks, the latter concerns how an informed consumer appreciates a particular product.

Proceedings on the merits are now pending before the Tribunal of Venice and a final decision is expected this year. If the interlocutory decision is confirmed, this case may represent an important step towards a new body of jurisprudence which is more favourable for IP rights owners.

Figure 5. Original Hermès bag



Figure 6. Counterfeit bag



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