New counterfeiting regulations in Italy

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NEW PROVISIONS

Law No. 99 of 23 July 2009 (Law 99) added several new elements to Italian IP law, in particular regarding criminal sanctions. Articles 473 (concerning counterfeiting) and 474 (concerning the introduction into Italy and the sale of products bearing counterfeit signs) of the Italian Penal Code (IPC) have been entirely rewritten, increasing both the periods of imprisonment and the fines for IP right infringers. The penalties for infringement now are:

- Counterfeiting trade marks: six months to three years imprisonment and a fine of between EUR2,500 (about US$3,460) to EUR25,000 (about US$34,640).
- Infringing of patents or models: one to four years imprisonment and a fine of from EUR3,500 (about US$4.850) to EUR35,000 (about US$48,500).
- Importing of products bearing counterfeit trade marks into Italian territory: one to four years imprisonment and a fine from EUR3,500 to EUR35,000.
- Introducing those products into the market: up to two years imprisonment and a fine of up to EUR20,000 (about US$27,700).

This article looks at the new provisions and discusses the changes in comparison with the old law and the likely effects on companies doing business in Italy.

Counterfeiting

Before the changes made by Law 99, in theory, establishing the crime of counterfeiting required proof that the infringer was subjectively aware that the infringed trade mark has been registered. The law itself did not give any indication of whether or not the infringer had to have known of the existence of the violated property right to be guilty of counterfeiting. However, in interpreting the subjective element, the jurisprudence had always considered wrongful intent as the will to counterfeit and awareness of the violated right and Italian Court of Cassation had ruled that, in the crime of counterfeiting, wrongful intent consisted, not only of the intention to counterfeit, but also of the awareness that the infringed trade mark (or distinctive sign) had been registered. The Court of Cassation also considered intent to include probable intent, so establishing intent required only demonstrating an acceptance by the infringer of the risk that the mark was registered and failure to verify the existence of the right by consulting the public record was evidence of the existence of the subjective element of the crime.

The new law now simply states that, to be guilty, a party must have been able to know of the existence of the industrial property right. The change, while seeming to extend criminal protection, may not make much difference in practice. Arguably, the new law agrees with the jurisprudence in making awareness of the right not dependant on positive subjective knowledge of the existence of the right, since it is enough to have accepted the risk that it exists. According to this interpretation, the change merely makes the subjective element (in the form of probable intent) an objective element of the crime. Therefore, it is sufficient to prove the violator's merely being able to know about the existence of a trade mark and the burden is now on the defence to demonstrate excusable ignorance. Arguably however, the formula "being able to know" is ambiguous. It could, in fact, demonstrate the legislature's intention to add negligence as a way of evaluating the infringer's behaviour, although this is not the preferable interpretation. These changes only apply to the counterfeiting of trade marks or distinctive signs and not to that of infringement on patents, designs or models, since the law on these is unchanged.

Sale of counterfeit goods

Penalties are harsher in the new formulation of Article 474 of the IPC, providing a separate punishment for the introduction of counterfeit goods into Italy as distinct from holding them for sale and putting them in circulation. The separation of the crime into two elements was accompanied by the requirement that it be done "for the purpose of deriving profit" (this is broader than simply saying "for profit"). While the old text referred to goods introduced into Italy "for trade", the new law applies to the importation of counterfeit products for generic profit even without offering them for sale.

Misleading information - "Made in Italy"

The law on the sale of industrial products with misleading information was changed twice in a few months. The list of examples of false or misleading indications of origin was extended to add the use of Italian companies' trade marks on products or goods not originating in Italy, without a precise indication, in obvious characters, of their country or place of fabrication or production, or other indication sufficient to avoid any error about their foreign origin (*Article 17, paragraph 4, Law 99*). A criminal sanction (that given by article 517 of the IPC, but increased by a third) was imposed for the use of a sales marking that presents the product as entirely made in Italy, in any language, or other indications that similarly wrongly indicate to the consumer the product's Italian production.

This new rule created problems of conformity to EU law and the Italian Constitution, and remained applicable for little more than a month. First, it conflicted with the basic principles of the free circulation of goods within the EU as the TFEU expressly prohibits its member states from imposing measures that are equivalent to quantitative restrictions on the circulation of goods.

Second, the amendments created a disparity of treatment between products made abroad by Italian businesses and foreign businesses, which is unconstitutional because it offends against the principle of equal treatment established by Article 3 of the Italian constitution, under which the law cannot specify different treatment for cases that are effectively the same.

For these reasons the legislature quickly modified the rule by introducing Article 16 of Legislative Decree (*decreto legge*) (DL) 135/2009. Article 16 has an almost identical tone, but no longer subjects the conduct to criminal sanctions. Instead there is a very high administrative sanction (of between EUR10,000 (about US$13,860) and EUR250,000 (about US$346,440)), accompanied, as before, by the confiscation of the goods. Article 16 eliminates the distinction between Italian and foreign trade marks. However, there are still problems with the interpretation of the new rule, which is still not entirely free of discrimination.

Corporate liability for crimes

Article 15, paragraph 7 of Law 99 (modifying article 25-bis of DL 231/2001), provides for a company's administrative liability in addition to criminal sanctions. This includes a fine of up to 500 shares for:

- The counterfeiting crimes under Articles 473 and 474 of the IPC.
- Price-fixing.
- Fraud in the exercise of trade.
- Sale of non-genuine foods as genuine.
- Sharing protected works over the internet.
- Sharing protected works over the internet with offence to the author's honour and reputation.
- Sale or duplication of software for profit.
- Publication, for profit, of protected television, theatrical, scientific works and so on.
- Sale or installation of devices for decrypting television or satellite signals.

It also gives a fine of up to 800 shares for:

- Unfair competition with threats or violence.
- Fraud against national industries.

Other penalties can also be imposed, such as:

- Prohibiting business operations.
- Suspension or revocation of authorisations, licences or concessions relevant to the commission of the illegal act.
- Prohibiting contact with the public administration.
- Prohibiting the advertising of goods or services.

DL 231/2001 introduced the possibility of a company being liable for crimes committed by physical persons working on its behalf. The purpose was to sensitise organisations to economic crimes by making companies liable personally, and to prevent them avoiding the direct consequences of crimes committed in their interest, or to their advantage, by physical persons. The law provides for administrative liability and penalties for several crimes committed in the interest, or to the advantage, of the company by (*Article 5, DL 231/2001*):

- Persons who represent, administer or direct the organisation.
- One of its bodies with financial or functional autonomy.
- Persons subject to the direction or oversight of one of these.

The company is not liable if these persons acted exclusively in their own interest or that of third parties. The company's liability is in addition to that of the person who materially committed the crime.

Article 6 of Law 99 lists the requirements for companies to avoid liability for crimes committed by the persons listed, including requirements for management models, control and oversight, and their application. To avoid liability for this crime, a company must have demonstrably adopted an organisational and management model suitable to preventing crimes of the type listed and show that the persons who committed the crime did so by fraudulently circumventing it. Penalties are listed in section II of DL 231/2001. Section III lists the crimes for which the company can be liable in this way, which include:

- Fraud to the damage of the state or other public agency.
- Illegal distributions of profits.
- Falsity in company communications.
- Operations to damage creditors.
- Fictitious capital formation.
- Undue influence over the shareholders' meeting
- Obstructing the functions of public oversight bodies.
- Rigging the market.
- Computer fraud to the damage of the state or other public agency.
- Corruption.
- Extortion.
- Crimes related to government payouts.
- Crimes against individuals.

As the counterfeiting crimes under Articles 473 and 474 of the IPC are also now included, this creates new risks for a company that could (in the absence of the measures required by Article 6), be held liable for a production of counterfeit goods in its interest and to its advantage, even without the knowledge of its management.

The introduction of Article 474 of the IPC raises particular problems for businesses that import products from foreign countries where the production of counterfeit goods is not strictly regulated. If an employee purchased counterfeit goods from abroad without the company's knowledge, in the absence of an organisation model updated on the basis of Law 231/2001, the company could be liable.

To avoid the risk of prosecution under DL 231/2001, it is essential to update company compliance programmes and set up an oversight body to protect against the commission of crimes by the subjects listed in Article 5. To develop an organisational model appropriate to the company's specific business, the corporate context should be looked at to highlight the areas and methods by which the crimes could be committed. In addition, at a practical level, goods purchased abroad must be subject to greater controls at various levels, particularly if purchased in countries with a high risk of counterfeiting.

OTHER CHANGES TO THE IPC

Confiscation

Counterfeiting or the introduction into the state and/or trade in products with false trade marks can now be quickly suppressed by confiscation (*Article 474-bis, IPC*). If the infringing goods cannot be confiscated, then other goods that the guilty party has access to can be confiscated, up to a corresponding value (*Article 322-ter, IPC*). Confiscation is obligatory in the case of plea bargaining.

Aggravating circumstances

The law now identifies an aggravating circumstance if crimes under Articles 473 and 474 of the IPC are committed systematically, but without becoming a criminal conspiracy under Article 416 of the IPC. The penalty is from two to six years imprisonment and a fine of from EUR5,000 (about US$6,930) to EUR50,000 (about US$69,280) (*Article 474-ter, IPC*).

The same aggravating element applies to Article 474, paragraph 2 (detention and sale of counterfeit goods) but is not as severe (imprisonment for up to three years and a fine of EUR30,000 (about US$41,570)).

This new aggravating circumstance aims to make the consequences of the crime harsher for habitual infringers or, in any case, where they have significant organisational means.

Extenuating circumstances

The law now identifies extenuating circumstances where the guilty party provides the police or judicial authorities with concrete help in (*Article 474-quarter, IPC*):

- Fighting the counterfeiting crimes proscribed by Articles 473 and 474 of the IPC.
- The collection of the decisive elements for the reconstruction of the events.
- The identification and capture of contributors to the crime.
- The identification of the tools used for the commission of the crimes.
- The identification of the crimes' profits.

The new definition of extenuating circumstances is aimed at helping the fight against counterfeiting by giving the local authorities and the trade mark holders a new tool to discover more information on the source of the products.

Usurping an industrial property right

Article 517-*ter* of the IPC introduced a new prohibition on the fabrication or industrial use of objects or goods produced by usurping or infringing on an industrial property right. It repeats the phrase "being able to know" as in Article 473 and preserves the application of Articles 473 and 474. Article 517-*ter* is therefore effectively a "closing regulation", closing the series of laws on the topic.

The second paragraph prohibits the introduction into Italy, the holding for sale or placing for sale with a direct offer to consumers or otherwise in circulation, these goods for the purpose of profit.

The new Article 517-*ter* apparently reproduces the old Article 127 of the Intellectual Property Code, which was abrogated by Article 15, paragraph 2 of Law 99. However, there is a distinction between the new crime of the fabrication and trade of goods produced by usurping industrial property rights in the new Article 517-*ter* and the abrogated rule in Article 127 of the Intellectual Property Code. While the first two paragraphs of the new Article 517-*ter* partly reproduce the conduct described in paragraph 1 of Article 127, there are some differences, specifically relating to the conduct defining the crime. While fabrication, industrial use and introduction into the state are the same concepts as required by Article 127 of the Intellectual Property Code holding for sale, placing in sale with a direct offer to consumers and placing in circulation are new.

In the new phrase "usurping an industrial property right", the term "usurp" may refer to copies made without the owner's consent but also to the fabrication or sale of original products going beyond one's own rights and thus "usurping" the rights of the owner. This definition could significantly expand the conduct's scope by including, for example, that of licensees who exceed their rights in the use of the licensed trade marks.

The penalty is the same as under Article 517, imprisonment for up to two years and a fine of EUR20,000 (about US$27,700). Extenuating circumstance apply if the guilty party co-operates with the police as described in Article 474-*quarter* of the IPC. The article also allows for confiscation, the aggravating element of systematic conduct, the possible temporary closing of the plant or business where the crime was committed, or the revocation of licences (*Article 517-bis, IPC*).

Food products

A new crime has been added specifically for counterfeiting the denominations of origin of food products (*Article 517-quarter, IPC*). This crime has two aspects:

- The counterfeiting or alteration of geographic indications or denominations of origin.
- The introduction into the territory of the state, holding for sale, or placing in circulation, for profit.

This allows confiscation if there is counterfeiting of foods or beverages with false indications of origin or provenance and the aggravating elements of systematic conduct apply.

The penalty is the same as under Article 517, imprisonment for up to two years and a fine of EUR20,000 (about US$27,700). Extenuating circumstance apply if the guilty party co-operates with the police as described in Article 474-*quarter* of the IPC (*see above, Extenuating circumstances*).

Organised crime

The provisions adopted to fight organised crime are now applicable to Articles 473, 474, 517-*ter* and 517-*quater* of the IPC (*Article 15, paragraph 3, Law 99 (amending Article 12-sexies of Law 356/1992*). In particular, if a sentence has been issued, or a trial concluded, by plea bargaining, the money, goods or other profits for which the convicted party cannot justify the origin and which he owns and has access to for a value disproportionate to his income are subject to confiscation.

Criminal conspiracy

The counterfeiting crimes proscribed by Articles 473 and 474 of the IPC have been added to the list of conduct potentially amounting to criminal conspiracy under Article 416 of the IPC (*Article 15, paragraphs 4, 5 and 6, Law 99*).

Police investigatory powers

Law 99 allows police officers to assist those who have committed the counterfeiting crimes proscribed by Articles 473 and 474 of the IPC for the sole purpose of acquiring proof of those crimes (*Article 17, paragraph 1, of Law 99 (amending Article 9 of Law 146/2006)*).

Consumer penalties

The new law imposes a more realistic penalty on consumers who purchase counterfeit merchandise, an administrative fine of between EUR100 (about US$140) and EUR7,000 (about US$9,700) (rather than between EUR500 (about US$690) and EUR10,000 (about US$13,860)) (*Article 17, paragraph 2, of Law 99 (amending Article 1, paragraph 7, of DL 35/2005 converted to Law 20/2005)*).

The legislature has eliminated the requirement that a guilty party must have purchased counterfeit goods without having first ascertained its legitimate origin from the definition of the crime. Instead liability is based on the goods' appearance of illegality, based on who is selling it, its price and quality.

Confiscation of land

Where a crime has been committed, the new regime provides for the confiscation of buildings and premises where the counterfeit materials were produced, stored, held for sale or sold, while protecting the rights of landlords who acted in good faith (*Article 17, paragraph 3, Law 99 (amending Article 1 of Law 35/2005)*).

To sum up, the recently introduced provisions have resulted in a stricter and more severe system of laws in the fight against counterfeiting. The general effect is to induce both producers and consumers to consider the danger behind the crime of counterfeiting and to provide the courts with broader powers concerning penalties. The new "Made in Italy" provisions will certainly raise issues of compliance with the EU laws but it is too early to predict their practical effect. The new laws certainly raise producers' awareness of the importance of avoiding the importation of products bearing false designations of origin or misleading information for consumers.

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