

Punitive damages in Europe? The ECJ will have a word on it!

Kluwer Patent Blog
November 21, 2014

Thomas Musmann (Rospat Ostern Pross)

Please refer to this post as: Thomas Musmann, 'Punitive damages in Europe? The ECJ will have a word on it!', Kluwer Patent Blog, November 21, 2014, <http://patentblog.kluwerplaw.com/2014/11/21/punitive-damages-in-europe-the-ecj-will-have-a-word-on-it/>

The newly established 15th Patent Senate of the Appeals Court of Düsseldorf (Presiding Judge Dr. Ulrike Voß) has referred a number of questions concerning the calculation of damages in IP cases to the European Court of Justice. This opens the floor for the ECJ to talk about damages, as far as I know for the first time in IP matters.

In the case which now has been referred to the ECJ plaintiff had already successfully sued defendant for infringement of its plant variety protection right and now tried to collect damages for the past infringement on the basis of a reasonable royalty. In calculating the damages on this basis, plaintiff requested to take into account several factors which he said are special in infringement cases and which he believed should increase the royalty beyond the level of what otherwise would be considered reasonable. Amongst the factors Plaintiff wishes to be considered is a standardized "infringers surcharge" of 50% of the (otherwise reasonable) royalties, i.e. a kind of punitive damage.

Although the case concerns a plant variety protection right (PVPR), its outcome will also be relevant for patent cases, since the questions not only refer to the PVPR Regulation but also to the application and interpretation of the Enforcement Directive.

The Appeals Court has already a clear idea how the ECJ should answer the questions, as can be seen by the comprehensive guidance it gives based on well established German jurisprudence. However, as we all know, the ECJ is always good for surprises.

The most prominent and probably relevant question the Appeals Court of Düsseldorf referred to the ECJ according to Art. 267 (1) lit. b, (2) TFEU with respect to the interpretation of the Council Regulation (EC) Nr. 2100/94 and the application and interpretation of Art. 13 (1) the Enforcement Directive (EC) Nr. 2004/48 is question 1:

In assessing the reasonable compensation an infringer has to pay to the proprietor of a PVPR according to Art. 94 (1) of the Regulation is there a standardized "infringer surcharge" to be added?

The suggested answer of the court is a clear "NO"!

It first discusses Art. 94 of the PVPR Regulation which is not our focus here. But it also discusses Art. 13 (1) of the Enforcement Directive, which -as a reminder- reads as follows:

When the judicial authorities set the damages:

(a) they shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the rightholder by the infringement;

or

(b) as an alternative to (a), they may, in appropriate cases, set the damages as a lump sum on the basis of elements such as at least the amount of royalties or fees which would have been due if the infringer had requested authorization to use the intellectual property right in question.

According to the court the term "lump sum" in Art. 13 Nr. 1 b) does not allow a standardized surcharge but refers only to the method of computing the damages as being a fictional exercise. To the extent the directive refers to "at least" the amount of royalties it is referring to nothing else but the practice of allowing an increase of the royalty based on a case by case basis, as exercised by German courts.

Nothing different follows from Art. 3 of the Enforcement Directive. Even though the measures, procedures and remedies provided by the member states must not only be fair just, effective, and proportionate but also deterrent this does not mean that they should be punitive. To the contrary: According to No. 26 of the recitals of the Enforcement Directive the aim is not to introduce an obligation to provide for punitive damages but to allow for compensation based on an objective criterion.

Finally the court refers to law in other European countries. Almost none of the European countries provides for punitive damages or an "infringer surcharge". This does not come as a surprise. What is a surprise is who actually provides for punitive damages. Did you know that Austria allows for double damages? Apparently also Lithuania and Poland have some sort of punitive damages.

The remaining questions relate to the relevance of certain factors for the assessment of damages, most of them should be irrelevant according to the court. The court however confirms that according to German jurisprudence the rightholder may claim a surcharge for the advantages of the infringer over a licensee on a case by case basis for (i) the fact that the infringer has no risk to pay royalties for an invalid IP right (ii) the risk of inflation in case of a seriously delayed payment (iii) an interest on past royalties of 5% above the base interest rate.

It is obvious that the Appeals Court of Düsseldorf doesn't want the ECJ to change anything but leave it as it is.

But who knows?

We have a saying in Germany: "Don't visit your Lord, unless he calls you".