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Damages in IP infringement matters (calculation methods and liable persons)

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I. Calculation Methods

Calculation of Damages

Legal Sources

- Directive 2004/48/EC of 29 April 2004 on the enforcement of IPRs whereas (26) +Art. 13

➢ Implemented by Law 2007/1544of October 29th, 2007
➢ Reform by Law 2014/315of March 11th, 2014

<u>Remark</u>:
-Legal provisions are *identical* for all IPRs

Art. L.331-1-3 IP Code = copyrights
Art. L.521-7 = models
Art. L.615-7 = patents
Art. L.623-28 = plant variety rights
Art. L.716-4 = trademarks
Art. L.722-6 = geographical indications

- Exception : copyright: supplementary rule (L. 331-1-4)

Calculation of Damages

French legal Provision - IP Code

- In fixing the damages, the court shall take into consideration separately:

(1) The negative economic consequences of infringement, including lost profits and losses suffered by the injured party;

(2) the non-pecuniary damage caused to the injured party;

(3) The profits made by the infringer, including the savings of intellectual, material and promotional investments, which he has derived from infringing the IPR.

- However, the court may, as an alternative and at the request of the injured party, award a lump sum as damages. This amount shall exceed the amount of the royalties or fees that would have been payable if the infringer had applied for authorization to use the right infringed. This amount is not exclusive of compensation for the non-pecuniary damage caused to the injured party.

Calculation of Damages

1st part : Main method

1.1. Rightholder Prejudice (actual prejudice = economic + moral)

+

1.2. Infringer profits (unfair profits)

2nd part: Alternative method (lump sum)

1.1. Actual Prejudice

1.1.1 Negative economic consequences of infringement

a. LOST PROFITS

3 step method

1. **Assessment of the *masse contrefaisante*** = number of products sold by the infringer

Problem: unknown by the rightholder!

- *Saisie-contrefaçon* (at the very beginning of the proceeding)
- Right of information

  Judge may order to communicate information on the **quantities produced**, **manufactured**, **delivered** and the price.

- During the proceeding (on the merit/summary); or
- Two judgements
  - 1st Judgment on the infringement + order to communicate information (under fine)
  - 2nd judgment on damages

a. **LOST PROFITS**

2. Assessment of lost sales for the rightholder *"lost sales rate"*
=100% of infringing products?

Criteria used by the judges:

- Did the rightholder have the industrial/commercial capacity to manufacture and sale all the infringing sales?

- Analysis of the market:
  - Are there substituted products available on the market?
  - What are the market shares of the IPR holder?
  - Are original and infringing products substitutable? Are distribution networks identical? Are the prices of the products similar?

- What is the importance of the IPR for the product?

a. **LOST PROFITS**

3. Assessment of the rightholder profit margin

- Profit margin = gross profit

Gross profit =

revenue: sale of one infringed product (turnover without taxes)

- *minus*

costs associated with manufacturing and selling of the product.
No fixed overheads (standing expenses)

- Burden of evidence: rightholder

Problem: he doesn't want to reveal his gross profit!

Calculation of lost profits

Amount of infringing sales *lost* by the rightholder

X

Rightholder gross profit

=

actual loss

1.1 Actual prejudice

1.1.1 Negative economic consequences of infringement

Specific situations

1. **Accessories sold with the patented product** ***"tout commercial"***

   I sell printer + cartridges

   My prejudice is: lost sales of (i) the printer and (ii) the cartridges

2. **The patented technology is part of a larger product**

- If the technology is essential for the clients (not substitutable? claims cover all the product?)

  My prejudice is: 100% of the infringing sales

- If the technology is not essential

  Application of the "lost sales rate"

Specific situations

3. The IPR holder doesn't sale products implementing his IPR

The actual loss is the amount of the royalties that the infringer would have paid, if he had applied for a license (*redevance indemnitaire* = ***royalty method***)

1. Assessment of the royalty rate
   - Royalty rate obtained for this IPR; or
   - the usual/reasonably royalty rate in the field of the infringed product.

Royalty rate is usually overestimated (not more than doubling the usual rate)

2. Assessment of infringer turnover for infringing products (excluding taxes *e.g.* VAT) = 100% (no reduction)

3. Calculation: (infringer turnover) X (royalty rate) = lost profits

b. OTHER LOSSES (*pertes subies*)

- The rightholder had to reduce his price, because of the competition of infringing products.

- Depreciation of the value of the IPR (*e.g.* the trademark is reproduced on a bad quality product).

1.1. Actual prejudice

1.1.2. Non-pecuniary damage (moral prejudice)

Moral prejudice suffered by the rightholder

Traditionally = only for *natural* persons
But it is also recognized for companies

Definition: everything that affects the company in its identity/singularity

Ex.: an *innovative* company (patent)
a *creative* company (copyright)
high quality products of a company (trademark and model)

Damages : usually low
But: 750.000 euros for the infringement of a TV show

1.2. Infringer unfair profits

Legal provision

- In fixing the damages, the court shall take into consideration : (3) The profits made by the infringer

- Definition of profits:

  gross profit/margin is the most common definition used by judges.

1.2. Infringer unfair profits

« take into consideration » unfair profits, what does it mean?

Can the rightholder ask for both actual prejudice **+** infringer profits?

On one hand:

Infringement implies the civil liability of the infringer

- Under civil liability, only the prejudice of the rightholder shall be quantified
- French implementation Law doesn't introduce punitive damages (preparatory works of the French Parliament)

Conclusion: infringer profits are used only to quantify the prejudice of the rightholder(?)

On the other hand:

- Damages shall have a deterrent effect (preparatory works of the French Parliament)
- The 2014 Law requires to take into consideration both actual prejudice AND infringer profits

Conclusion: the judge shall award unfair profits to the rightholder (?)

1.2. Infringer unfair profits

« take into consideration » unfair profits

<u>The current situation:</u>

Diverse constructions of the Law by the judges:

- Recovery of all infringers profits
- Recovery of part of the infringers profits
- No recovery: Paris Court of Appeal, 9 December 2016 (patent troll): but if unfair profits are higher than the prejudice, the difference is awarded to the rigtholder.
- Reduction of actual prejudice, because of absence of infringers profits(!) – rare

<u>Conclusion</u>:

- Prejudice of rightholder is the *<u>basis</u>* for the quantification of damages
- Judge shall *<u>separately</u>* take into consideration prejudice AND unfair profits
- But the judges *<u>shall not award in all cases</u>* infringers profits to the rightholder

1.2. Infringer unfair profits

« take into consideration » unfair profits

The future

- No decision from the Supreme Court (*Cour de cassation*) has been rendered.

- No decision will be rendered (?)

Role of the Supreme Court: to harmonize the construction of Law on the French territory

- The French Supreme Court doesn't have jurisdiction over calculation of damages
- Is it a question of calculation?
- Refer to the Court of Justice for a preliminary ruling on Art. 13?

1.2. Infringer unfair profits

Additional **provisions for copyright**

Art. L.331-1-4 IP Code

- The judge may order the confiscation of all or part of the receipts (= turnover or profit?) obtained by reason of the infringement.
- The confiscated receipt shall be given to the victim.

It is an old provision (1791).

But new wording in 2017

Remark:

Similar provision for criminal counterfeiting of copyright (L.335-6).

But receipts are not given to the victim

2. Alternative method: lump sum

Law provisions (IP Code)

Lump sum is awarded to the rightholder

Condition:

Request from the rightholder

- rare if the rightholder exploits his IPR

Royalty method:

- but the amount shall exceed the reasonable royalty rate (mandatory).

+ moral prejudice

Amount of damages awarded by French judges in 2016

	PATENT	TRADEMARK	DESIGN RIGHTS
No damages	**2**	**4**	**0**
0-50.000	**8**	**67**	**20**
50.000-100.000	**1**	**8**	**4**
100.000-250.000	**3**	**3**	**2**
250.000-500.000	**1**	**3**	**2**
500.000-1.000.000	**4**	**0**	**0**
> 1 M	**2**	**0**	**0**
TOTAL	**21**	**85**	**28**

Highest amount of damages awarded in 2016

TGI Paris, 29 September 2016 (patent), Exbanor v. Pellenc

<u>Damages awarded to EXBANOR</u>

Lost profits:	1,829,379 euros
Unfair profits:	134,813 euros
Moral prejudice:	15,000 euros
Total:	**1,964,192 euros**

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Expertise?

In most cases, no judicial expertise on the prejudice is ordered

But private expertise is very useful

II. Liable persons

1. Who can be condemned to pay damages?

2. Who can ask for damages?

II. Liable persons

Who has to pay damages?

- Infringer = all natural persons or companies, that exploit an IPR without authorization from the owner.

- Legal person: company; NGO; municipality, etc.

- Natural persons: everybody up to 18 years
- CEO = Yes, except if he has given a delegation of authority
- Employee = No, except if he has a delegation of authority
- End users = Yes but very rarely!

II. Liable persons

Who has to pay damages?

For which actions?

- **Direct infringement**

Good or bad faith is indifferent

Exception for patent:

For other than manufacturer + importer. (*e.g. distributors*) = bad faith (full knowledge of the facts) is a condition (L615-1) + offering process for use (L613-3)

- **Indirect/contributory infringement**

➢ For patents: only one case of indirect infringement (L.613-4)

Infringement if you supply an essential means for the implementation of the invention

= Bad faith is a condition

➢ Other IPRs

No limitation, but *bad faith* is always a condition.

II. Liable persons

Who pays the damages?

- ***In solidum* condemnation**

  The rightholder can enforce the judgment against each infringer for *all* damages.

- **Final charge of damages**

  The infringer who paid all damages, can ask for the *total* or *partial* reimbursement of damages from co-infringers.

  Good or bad faith / direct infringer or contributory / professional or not / manufacturer or distributor (*e.g.* guarantee)

II. Liable persons

Who can ask for damages?

- **IPR owner**

- **Licensee**

  Exclusive licensee can engage an infringement proceeding *alone,* if the IPR owner refuses to do it (except otherwise agreed in the license contract)

  All licensees can intervene in the proceeding and ask for damages as compensation for their own prejudice

  Ex.

  IPR owner who doesn't exploit his IPR = prejudice (royalty rate) + unfair profits (?)

  Licensee = personal lost profits. But no recovery of unfair profits(?)

Thank you for your attention!

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