



European Communities Trade Mark Association

**EUROPEAN COUNTERFEITING AND PIRACY OBSERVATORY
SUB-GROUP ON LEGAL FRAMEWORK
MEETING OF 19 JANUARY 2010 – 3 P.M. - 5.30 P.M.
EUROPEAN COMMISSION, BRUSSELS**

Reported by Olivier Vrins, Member of ECTA Anti-Counterfeiting Committee, Altius, BE

The fourth meeting of the Sub-Group on Legal Framework set up within the European Counterfeiting and Piracy Observatory took place on 19 January 2010 in Brussels.

The meeting was attended by:

Benoît **Lory** (FR), EU Commission, DG MARKT (Chair)

Zuzana **Heckova** (SK), EU Commission, DG MARKT

Allen **Dixon**, International Intellectual Property & Technology Consulting (UK) – Delegate of BASCAP

Ted **Shapiro**, Motion Picture Association

Ann-Charlotte **Söderlund**, Delphi law firm (SE) – Founder Swedish Anti-Counterfeiting Group, Co-Founder Global Anti-Counterfeiting Group and Swedish member of the Anti-Counterfeiting Committee of ECTA (by telephone)

Prof. Cesare **Galli**, Galli law firm (IT), University of Parma – Delegate of Indicam

Charlotte **Lund-Thomsen**, International Video Federation (IVF)

Olivia **Regnier**, IFPI

Lisa **Peets**, Covington & Burling law firm (UK) – Delegate of Business Software Alliance

Olivier **Vrins**, Altius law firm (BE) – Delegate of ECTA and the Belgian Anti-Counterfeiting Association

1) Following the approval of the Minutes of the meeting held on 11 December 2009, the meeting followed-up in the first place on the review of the implementation in the Member States of Articles 13-14 of the Enforcement Directive relating to damages (scope, calculation, burden of proof, etc.) and costs.

Zuzana Heckova (DG MARKT) presented a detailed overview of the conclusions which the Commission had been able to draw from the 25 national reports on damages compiled by the Sub-Group's members. So far, only the Portuguese and Cypriot experts have failed to submit their reports.

DG MARKT's screening of the 25 damages surveys enabled the Sub-Group's members to highlight the similarities and differences in legislation and practice in the Member States with respect to damages in IPR-related cases. The comparative table has been sent to the national contributors to make sure that it is accurate, and ought to be finalised before the end of January. It will then be up to the Sub-Group's members to make recommendations to the Commission, possibly based on national best practices, to improve the existing legal framework.



European Communities Trade Mark Association

- As far as **entitlement to damages in IPR-related cases** is concerned, some discrepancies were noted between the Member States. Whilst the majority of the Member States require at least proof of negligence for awarding damages, in a significant part of them the mere violation of an IPR suffices for the award of damages. Most Member States (ca. 90%) award damages regardless of whether or not the infringement has taken place on a commercial scale. However, in a minority of them, damages are granted only for infringements committed on a commercial scale.
- As regards the **assessment of the right-holders' prejudice**, almost all countries seem to take into account the royalties and profits lost by the right-holders when awarding damages (even though, for example in Greece, compensation for lost profits seems to be extremely difficult to obtain in trademark cases). However, many right-holders often find it very difficult to prove that they would have made the same profits as the infringers in the absence of the infringement. It appears that, in some Member States, the courts often find it difficult to precisely assess lost profits and therefore tend to resort to an *ex aequo et bono* evaluation. In addition, most countries have empowered the courts to order a transfer of profits from the infringer to the right-holder, but often this is only possible in cases of bad faith. Interestingly, Italian law explicitly stipulates that the right-holders may opt to receive either the profit made by the infringer, or the profit lost by the right-holder, whichever amount is higher.

Many respondents stated that damages in the form of a lump sum are the preferred option. This mostly allows the right-holder to claim from the infringer compensation for the full amount of the relevant licence fee or retail price of the infringing product. The courts seem to grant a lump sum without differentiating between the different components of the prejudice. Judgments are often not very explicit nor transparent as to how the damages were calculated.

- Almost all respondents confirmed that IPR-owners are usually in a position to obtain the **evidence** required to assess damages from the infringer (e.g. on gross sales) in the framework of court proceedings. This is based on the right to information provided in Article 8 of the Enforcement Directive. This provision may also be used against intermediaries. However, the situation seems to be rather problematic in Greece where the claimant is required to precisely identify the nature, position, reference numbers and contents of the requested documents (even the page numbers of the defendant's commercial records) in order to be granted information. The Greek expert stated that almost 90% of all such requests are rejected by the courts as "too vague".
- In practice, however, the **difficulty of proving the actual prejudice** incurred by the right-holders as a result of an IPR infringement has been highlighted by most respondents. Sometimes, the courts request evidence that is very difficult or even impossible to present.
- One of the main goals of the damages study is to make sure that the provisions on damages contained in the Directive, as it has been implemented and is being applied in the Member States, have a **deterrent effect** on would-be infringers. To date, the screening process carried out by the Sub-Group confirms that this is not the case. Only a minority of respondents stated that civil damages have a "serious deterrent effect" (Italy)



European Communities Trade Mark Association

or at least a "slight deterrent effect" (Romania). In Sweden, the deterrent effect seems to be increasing, since there have been a range of judgements where substantial amounts of damages have been awarded. In Austria, civil damages generally have a deterrent effect, since the minimum amount of damages for faulty conduct is twice the amount of the reasonable royalties. At least five of the respondents stated that the damages are "not deterrent". At least two others opined that the threat of having to pay damages is insignificant, which constitutes an economic incentive for the infringers. Five respondents stated that the threat of damages has a neutral effect and one respondent stated that the threat of damages had a "neutral to economic incentive" effect.

The general prohibition on punitive damages in the Member States may, in some cases, mean that infringers are not (entirely) deprived of the profits made from selling counterfeit goods, even though this is widely seen as unsatisfactory. However, even though most Member States do not expressly apply punitive damages, in some countries it is possible to claim at least the amount of profits made by the infringer. In Poland, the right-holder may ask the court to order the infringer to pay an appropriate amount, not less than double the estimated profit made by the infringer, to the Creativity Promotion Fund, if the infringement occurred within the scope of business activity.

- The implementation of the provisions of the Directive relating to the recovery of **legal costs** (and, typically, **lawyers' fees**) also seems to have given rise to problems. Lawyers' fees are often determined on the basis of statutory tariffs (maximum amounts). Experience shows that these tariffs are often much lower than the real costs incurred by the right-holder. In several countries, the amount of lawyers' fees which can be recovered depends on the value of the claim, but this is inadequate, as the value of the claim does not necessarily reflect the complexity of the case and may, therefore, be an inappropriate criterion for evaluating the "reasonable" nature of the lawyers' fees. Most of the respondents stated that the compensation awarded for lawyers' fees is, in practice, usually far below the real amounts. For example, the following estimates have been made: 10%-50% (Denmark), "only a small percentage" (Greece), 30% (Italy), 10%-30% (Luxembourg), 66%-100% (Romania), "very low" (Spain), approximately 75% (Sweden), 50%-70% (Austria). However, a few practitioners stated that it was possible in their jurisdiction to obtain 100% reimbursement of the legal costs (e.g. Lithuania, Hungary, Slovakia or Austria for simple cases).

2) The Sub-Group also followed-up on the surveys relating to:

- Evidence, including the right to information (Arts. 6 to 8 of the Enforcement Directive);
- Corrective Measures (Art. 10).

Reference is made to the ECTA Flash of 1 December 2009 as regards the intended scope of these surveys.

The local contributors are expected to file their reports on Corrective Measures before the end of January 2010 to enable the Sub-Group's members to compile the results before their next meeting on 26 February 2010 in Brussels.



European Communities Trade Mark Association

3) The progress made so far by the Sub-Group will be presented at the February meeting of the private-sector stakeholders involved in the European Counterfeiting and Piracy Observatory (precise date still to be decided).

The Legal Sub-Group is also expected to report on its work at the plenary (public-sector and private-sector) meeting of the Observatory in June 2010. It is hoped that, by then, the Sub-Group will be in a position to finalise, draw conclusions from and make recommendations based on the surveys on Damages, Corrective Measures and Evidence, and possibly also on Injunctions.