

Intellectual property rights: infringement and calculation of damages

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A Comment on the Judgment of the Court of Justice of the European Union (Fifth Chamber) *Stowarzyszenie 'Olawska Telewizja Kablowa' v Stowarzyszenie Filmowców Polskich*, 25 January 2017 (Case C-367/15)

1. Background to the Comment

In the Judgment *Stowarzyszenie 'Olawska Telewizja Kablowa' v Stowarzyszenie Filmowców Polskich*, of 25 January 2017 (Case C-367/15), the Court of Justice pronounced on the compatibility of national legislation granting the rightholder whose economic rights of copyright have been infringed the possibility of, as an alternative to compensation for the damage actually suffered, requesting payment of a sum which corresponds to twice the fee that would be due for the permission to use the work, with Article 13 of Directive 2004/48/EC of the European Parliament and of the Council, of 29 April 2004, on the enforcement of intellectual property rights¹.

This was a request for a preliminary ruling presented by the Polish Supreme Court which, considering the application of the national legislation in view of Article 13(1) (b) of Directive 2004/48, questioned the legitimacy of the injured party requesting compensation corresponding to twice the appropriate fee, without being required to prove the loss and the causal relationship between the event and such loss, as an alternative to redress for the damage suffered, calculated in line with general principles. The Court also asked whether an order to pay pre-established damages via the application of a multiple of the appropriate fee would be permissible under Article 13 of the Directive, given that recital 26 of the preamble to the Directive excludes the introduction of punitive damages from the Directive's aim.

This ruling of the Court of Justice is significant for three key reasons: 1) it recognises that the Directive seeks minimal harmonisation of the rules on compensation for infringement of intellectual property rights; 2) it separates the pre-established compensation from proof of the specific extent of the damage; 3) it rejects the argument that the Directive prohibits the fixing of punitive damages. It should be stressed, however, that, unjustifiably, it silences the compatibility of such damages with the Directive. It will be of interest to analyse each of the aforementioned points.

2. The minimal level of protection

Article 2(1) of Directive 2004/48 lays down: "Without prejudice to the means which are or may be provided for in Community or national legislation, in so far as those means may be more favourable for rightholders, the measures, pro-

¹ The Directive is published in the "Official Journal of the European Union", L 195, 2.6.2004, pp. 16 to 25.

cedures and remedies provided for by this Directive shall apply, in accordance with Article 3, to any infringement of intellectual property rights as provided for by Community law and/or by the national law of the Member State concerned.”

In this case C-367/15, the Advocate General Eleanor Sharpston, in the Conclusions presented on 24 November 2016, excluded the applicability of the minimal harmonisation clause to compensation for loss and damage (Article 13 of the Directive), drawing a distinction between *means* and *measures*. In short, the *measures* that the Directive included must be interpreted in order to ensure equivalent protection in the different Member States. A different conclusion is only possible regarding *means* which, with a view to the same aim pursued by the Directive, are not ruled by it (paragraphs 49 to 54). She writes: “53. [...] I do not see that Article 2(1) can serve as a basis for an argument which states that Directive 2004/48 introduces only minimal harmonisation in those areas which it does cover. First, such a proposition runs counter to the wording of that provision, which refers not to ‘measures’ which are or may be provided for in EU or national legislation but to ‘means’. Second, it fails to reflect the general scheme of the directive, which, as indicated in recital 8, is to ensure that intellectual property rights enjoy an equivalent level of protection throughout the European Union. In so far as the directive lays down rules applying to a particular form of remedy, as it does in the case of damages, the rules should in my view be the same throughout the European Union.”

This statement presupposes, however, that, if the national legislation includes a measure of a punitive nature in the context of compensation, this must be classified as compensation and, thus, its legitimacy in the light of Directive 2004/48 is excluded. In fact, when pronouncing on the claims of the Polish government that the Court of Justice should have regard to the Judgment rendered by it in the case of *Maria Auxiliadora Arjona Camacho v Securitas Seguridad España, SA*, of 17 December 2015 (Case C-407/14), according to which the provision of the payment of punitive damages to whomever has been a victim of discrimination based on gender constitutes a proportionate and, as such, legitimate sanction, the Advocate General states: “46. I can draw no useful guidance from the judgment in question. The provision which it refers to concerns, inter alia, the payment of sums by way of penalties and not as damages. In the former context, it is natural that the calculation concerned may bear no necessary relation to the harm suffered by the victim. The same cannot be said of an award of damages which, by virtue of Article 13(1) of Directive 2004/48, must be appropriate to the *actual* prejudice suffered by the rightholder. In that context, the test of proportionality presupposes, in my view, that there be some relationship between the loss suffered and the amount claimed. I suggest that an award of punitive damages will not, by definition, satisfy that test.”

This understanding does not seem to us to be the correct one. The classification of a *means* or of a *measure* must be given by the purpose of the national regulation and not by the name it has been given. A sanction which exceeds compensation of the damage and, therefore, favours the injured party, must be understood as a private penalty and, as such, its legitimacy must be assessed. In line with this reasoning, and even if the interpretation of Article 2(1) of Directive 2004/48 was that proposed by the Advocate General, the fact that the European legislator established a regime for damages is not sufficient to restrict the assessment of the applicability of the national rule on the duty to compensate to Article 13 of the Directive.

It is, therefore, fitting to assess whether the private penalty finds support in any of the other provisions of Directive 2004/48 which, in the absence of complementary regulations, validate the means to which the national legislator resorts for such purpose. It may be noted that, in *Arjona Camacho*, interpreting Directive 2006/54/EC of the European Parliament and of the Council, of 5 July 2006, on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation (recast), the Court of Justice distinguished between the aim of the compensation provided for in Article 18, the function of which is full compensation for the loss, and the scope of the duty to indemnify². On the latter, it considered that Article 25, on the provision of penalties, allows the national law to establish the obligation to pay punitive damages to a victim of discrimination on the grounds of sex. In other words, the European legislator's option to regulate compensation in the classic manner, limited by the extent of the damage, cohabited with the inclusion of the duty to indemnify being used to dissuade discriminatory conduct.

A different understanding cannot be drawn from Directive 2004/48. In particular, Article 3 lays down: "1. Member States shall provide for the measures, procedures and remedies necessary to ensure the enforcement of the intellectual property rights covered by this Directive. Those measures, procedures and remedies shall be fair and equitable and shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays; 2. Those measures, procedures and remedies shall also be effective, proportionate and dissuasive and shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse." It is true that, in line with recital 26, the aim of the rules on loss and damage was not to introduce "an obligation to provide for punitive damages but to allow for compensation based on an objective criterion while taking account of the expenses incurred by the rightholder, such as the costs of identification and research".

² The Directive is published in the "Official Journal of the European Union", L 204, 26.7.2006, pp. 23 to 36.

It is, however, also true that, as we shall see, the Directive does not rule against the legitimacy of punitive damages and that, according to recital 3, “without effective means of enforcing intellectual property rights, innovation and creativity are discouraged and investment diminished”. Recital 3 also states that it is “necessary to ensure that the substantive law on intellectual property, which is nowadays largely part of the *acquis communautaire*, is applied effectively in the Community. In this respect, the means of enforcing intellectual property rights are of paramount importance for the success of the internal market”.

It is within this scope that Article 16 of Directive 2004/48 finds justification: “Without prejudice to the civil and administrative measures, procedures and remedies laid down by this Directive, Member States may apply other appropriate sanctions in cases where intellectual property rights have been infringed.” This rule is compatible with the aim of the Directive: “[...] to approximate legislative systems so as to ensure a high, equivalent and homogeneous level of protection in the internal market” (recital 10). There are, therefore, grounds for national legislators to use their compensation rules as means of protecting intellectual property rights, despite the directive’s inclination towards the classic instruments: “[...] in addition to the civil and administrative measures, procedures and remedies provided for under this Directive, criminal sanctions also constitute, in appropriate cases, a means of ensuring the enforcement of intellectual property rights” (recital 28).

Where European law safeguards the freedom of the national legislator to fix sanctions which are effective, proportionate and dissuasive, the civil law may operate as an instrument capable of satisfying the aims sought by the European regulations. It is a known fact that the European legislative and judicial bodies have emitted contradictory indications regarding the use of punitive damages³. We may safely state, however, that the provision of a regime for compensation for resulting harm and lost profits does not preclude, in itself, recourse to punitive damages as an additional sanctioning instrument in the national law.

In this sense, the Court of Justice, in the decision being annotated, rejected the interpretation of the Advocate General, which, as we have seen, restricted the competence of the national legislator, subordinating the concept of means to the need to guarantee equivalent protection of intellectual property in the terms in which the measures were included in the Directive.

According to Eleanor Sharpston, the compensation could not have a reach other than that covered by Article 13, without prejudice to the means which the national legislation lays down for such purpose. Yet, in the Judgment we read: “21. It should be noted, first of all, that, as is apparent from recital 3, Directive

³ See Bernhard A. Koch, *Punitive Damages in European Law*, in “Punitive Damages: Common Law and Civil Law Perspectives” (Helmut Koziol/Vanessa Wilcox – eds.), Wien/New York, 2009, pp. 197 et seq.

2004/48 seeks to ensure that the substantive law on intellectual property is applied effectively in the European Union. Thus, Article 3(2) of the directive requires the measures, procedures and remedies provided for by the Member States to be effective, proportionate and dissuasive. 22. Whilst recital 10 of Directive 2004/48 refers, in this context, to the objective of ensuring a high, equivalent and ‘homogeneous’ level of protection, of intellectual property in the internal market, the fact remains that, as is apparent from Article 2(1), the directive applies without prejudice to the means which are or may be provided for, in particular, in national legislation, in so far as those means may be more favourable for rightholders. *It is quite clear from recital 7 of the directive that the term ‘means’ that is used is general in nature, encompassing the calculation of damages.* 23. Consequently, as the Court has already held, Directive 2004/48 lays down a minimum standard concerning the enforcement of intellectual property rights and does not prevent the Member States from laying down measures that are more protective (see judgment of 9 June 2016, *Hansson*, C-481/14, EU:C:2016:419, paragraphs 36 and 40)” (our italics).

Accordingly, the Court of Justice accepts that the concept of compensation can be tailored to different regimes and that the framing of Article 13 does not preclude the intervention of the national legislation in defining how to calculate the compensation. Thus, if the compensation exceeds the extent of the damage, as was set out by the aforementioned article, its legitimacy is only assessed using the criteria of Article 3(2) of Directive 2004/48. The measures, procedures and remedies adopted by Member States to guarantee enforcement of intellectual property rights “[...] shall [...] be effective, proportionate and dissuasive [...]”. This is, therefore, a case of minimal harmonisation.

The same solution can be found in other international instruments by which the States are bound, as referred to by the Court of Justice: “24. [...] in accordance with recitals 5 and 6 and Article 2(3)(b) of Directive 2004/48, it is necessary, for the purpose of interpreting the directive’s provisions, to take account of obligations on the Member States resulting from international agreements, including the TRIPS Agreement, the Berne Convention and the Rome Convention, which could apply to the dispute in the main proceedings. Article 1 of the TRIPS Agreement as well as Article 19 of the Berne Convention and Article 2 of the Rome Convention permit Contracting States to grant the holders of the rights concerned wider protection than that respectively laid down by those instruments.”

Considering all of the foregoing, the masking of the debate as to whether punitive damages are congruent with Article 13 leaves a bitter aftertaste. The Court states: “29. [...] without there being any need to rule on whether or not the introduction of ‘punitive’ damages would be contrary to Article 13 of Directive 2004/48, it is not evident that the provision applicable in the main proceedings

entails an obligation to pay such damages.” The Court takes refuge, comfortably, in giving an indemnifying aim to twice the amount of the hypothetical fee, as if that classification could avoid the lack of an exact equivalence between the amount provided for and the damage that the injured party, in fact, suffered. This is merely a word game, to hide that which is visible to all: the legitimacy of damages being used to dissuade conduct, provided that the penalty is proportionate to the harm suffered. We shall return to the topic.

3. Pre-established damages

Article 13 of Directive 2004/48 provides as regards compensation for loss and damage: “1. Member States shall ensure that the competent judicial authorities, on application of the injured party, order the infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity, to pay the rightholder damages appropriate to the actual prejudice suffered by him/her as a result of the infringement. 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 authorisation to use the intellectual property right in question. 2. Where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity, Member States may lay down that the judicial authorities may order the recovery of profits or the payment of damages, which may be pre-established.”

According to the Advocate General in this case, the application of Article 13(1) (b) constitutes a regime of exceptional application and presupposes that the injured party demonstrates a lack of disproportionality between the loss actually suffered and the compensation calculated thus. Let us see:

a) The exceptional application. Without prejudice to the rule’s silence on this, recital 26 of the Directive appears to support the interpretation that the provision is afforded a subsidiary nature, only applicable when it proves difficult to determine damages in accordance with sub-paragraph a). In view of such difficulty, the injured party has an alternative tool available to him to compensate the harm. Eleanor Sharpston writes: “37. [...] the legislature thus intended to enable the rightholder to avoid the potentially large amount of time and expense that he

might otherwise have to incur as a condition of bringing proceedings against an infringer.”

The line of reasoning followed by the Advocate General imposes on the injured party seeking to use the pre-established damages criterion the burden of proving “that it is accordingly ‘appropriate’ to do so. It must, as a minimum, either be ‘difficult to determine the amount of the actual prejudice suffered’ or there must be grounds which establish that the award of damages limited to a sum calculated by reference to subparagraph (a) is manifestly unjust or unreasonable” (38.). This understanding is not contested by the ruling of the Court of Justice;

b) The causal link between the compensation and the harm actually suffered. Eleanor Sharpston considers that the lump sum method, since it cannot be dissociated from that set out in paragraph 1 of Article 13, requires the injured party to demonstrate that the measure is not disproportionate to the damage caused: “47. [...] What the rightholder must establish is that the loss suffered and the amount claimed are not out of proportion to one another. To that degree, therefore, he must establish a causal link between the two. By the nature of the remedy provided for in subparagraph (b) of Article 13(1), it is not necessary for the rightholder to establish that relationship with mathematical certainty, since the whole point underlying that provision is to cater for circumstances in which it may be difficult or impossible to do so. But it is in my view necessary that he demonstrate some relationship and that he should not be given an entitlement to damages that are in no way commensurate to his actual loss.”

The proof required appears to us to lack grounds, for two key reasons:

1 – the demonstration, albeit approximate, of the damage that was, in fact, suffered, cancels out the effects intended by the provision of this formula for calculating, namely “while taking account of the expenses incurred by the rightholder, such as the costs of identification and research” (recital 26 of the Directive). As, indeed, the Advocate General acknowledges, writing with regard to the contribution of a system based on royalties or fees for the prevention of those charges: “37. [...] Were the position to be otherwise, there would be a risk that the requirement under Article 3(1) of Directive 2004/48 that remedies must not be unnecessarily complicated or costly or entail unwarranted delays could not be satisfied. They would not, in other words, be ‘effective’ and hence ‘dissuasive’ for the purposes of Article 3(2) of the directive.”

In this sense, the Court decided that the proof of damage is contrary to the nature of the compensation set out in Article 13(1) (b) of the Directive: “32. [...] as regards the argument that, inasmuch as the injured party could calculate the damages on the basis of twice the amount of the hypothetical royalty, he would no longer have to prove the causal link between the event giving rise to the cop-

right infringement and the loss suffered, it must be stated that that argument is based on an excessively strict interpretation of the concept of ‘causality’, under which the holder of the infringed right should establish a causal link between that event and not only the loss suffered but also its precise amount. *Such an interpretation is irreconcilable with the very idea of setting damages as a lump sum and, therefore, with Article 13(1)(b) of Directive 2004/48, which permits that type of compensation”* (our italics).

It may be added that the Court accepts the idea of adequacy between the compensation and the damage, but, so as to correspond to the cited option, places the burden on the injuring party to prove the lack of proportionality between the extent of the compensation and the injured party’s losses: “31. It is admittedly possible that, in exceptional cases, payment for a loss calculated on the basis of twice the amount of the hypothetical royalty will exceed the loss actually suffered so clearly and substantially that a claim to that effect could constitute an abuse of rights, prohibited by Article 3(2) of Directive 2004/48”;

2 – the assessment of proportionality cannot be made only regarding the extent of the damage, if we accept that the compensation performs a punitive function. In this context, the level of fault of the perpetrator or repetition of his conduct is particularly relevant. With the aforementioned reach, as will be stated below, Portuguese law makes adequate provision.

4. The absence of a prohibition on punitive damages

The Judgment states emphatically: “28. Contrary to the view that the referring court appears to take, the fact that Directive 2004/48 does not entail an obligation on the Member States to provide for ‘punitive’ damages cannot be interpreted as a prohibition on introducing such a measure.”

It is true that the Court silenced any statement in favour of the legitimacy of that measure. The legitimacy of punitive damages seems, however, to be acceptable, in general terms. This has already been stated in relation to the enshrining of a minimum level of protection.

European law bases the exclusion of punitive damages on the legislator expressly providing that it is not legitimate, a statement that is absent in Directive 2004/48, or on the disproportionality which, in the understanding of the case law, characterises such penalties.

Let us begin with the argument based on the legal prohibition. By way of an example, the possibility of an order awarding punitive damages was denied in the area of collective protection of rights and competition law:

a) In the Commission Recommendation of 11 June 2013, on common principles for injunctive and compensatory collective redress mechanisms in the Member States concerning violations of rights granted under Union Law, we may read in principle 31 (prohibition of punitive damages): “The compensation awarded to natural or legal persons harmed in a mass harm situation should not exceed the compensation that would have been awarded, if the claim had been pursued by means of individual actions. In particular, punitive damages, leading to overcompensation in favour of the claimant party of the damage suffered, should be prohibited.” The stated intention is “to avoid the development of an abusive litigation culture in mass harm situations” (recital 15)⁴;

b) In Directive 2014/104/EU of the European Parliament and of the Council, of 26 November 2014, on certain rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the European Union, Article 3(3) provides that “full compensation under this Directive shall not lead to overcompensation, whether by means of punitive, multiple or other types of damages”⁵.

Considering the provisions cited, included in regimes where dissuasion of conduct is particularly significant, there would be grounds to consider that punitive damages are contrary to the public order of the European Union. And, yet, a different conclusion can be drawn, namely, from Regulation (EC) No 864/2007 of the European Parliament and of the Council, of 11 July 2007, on the law applicable to non-contractual obligations (Rome II)⁶. While in the initial text such opposition was stated, the final version did not adopt the solution, with Article 26, on public policy of the forum, providing a safeguard for States with regard to damages of punitive character. Recital 32 of the Regulation states that reasons “of public interest justify giving the courts of the Member States the possibility, *in exceptional circumstances*, of applying exceptions based on public policy and overriding mandatory provisions. In particular, the application of a provision of the law designated by this Regulation which would have the effect of causing *non-compensatory exemplary or punitive damages of an excessive nature to be awarded may, depending on the circumstances of the case* and the legal order of the Member State of the court seised, be regarded as being contrary to the public policy (*ordre public*) of the forum” (our italics). It is significant to note that the formula chosen subjects the inapplicability of a law which legitimises the awarding of punitive damages to the excessive reach of damages, thereby suggesting the acceptance of different effects of civil liability.

4 In the “Official Journal of the European Union”, L 201, 26.7.2013, pp. 60 to 65.

5 In the “Official Journal of the European Union”, L 349, 5.12.2014, pp. 1 to 19.

6 In the “Official Journal of the European Union”, L 199, 31.7.2007, pp. 40 to 49.

In tune with this understanding, and in the absence of a prohibition on punitive damages, it seems appropriate that the European case law limits itself to assessing the proportionality between the measure and the harm, respecting the principles of equivalence and effectiveness. Thus, the Judgment of the Court of Justice in *Vincenzo Manfredi v Lloyd Adriatico Assicurazioni SpA*, of 13 July 2006 (in Joined Cases C-295/04 to C-298/04) states: “99. [...] in accordance with the principle of equivalence, if it is possible to award specific damages, such as exemplary or punitive damages, in domestic actions similar to actions founded on the Community competition rules, it must also be possible to award such damages in actions founded on Community rules. However, Community law does not prevent national courts from taking steps to ensure that the protection of the rights guaranteed by Community law does not entail the unjust enrichment of those who enjoy them.”

It cannot be denied, however, that there is a temptation to recognise punitive damages as a measure which is, by its nature, disproportionate and, thus illegitimate. According to European legislation, applicable enforcement instruments must be effective, proportionate and dissuasive. Regarding the case being discussed here, the Advocate General writes: “46. [...] In the former context [payment of sums by way of penalties], it is natural that the calculation concerned may bear no necessary relation to the harm suffered by the victim. The same cannot be said of an award of damages which, by virtue of Article 13(1) of Directive 2004/48, must be appropriate to the *actual* prejudice suffered by the right-holder. In that context, the test of proportionality presupposes, in my view, that there be some relationship between the loss suffered and the amount claimed. *I suggest that an award of punitive damages will not, by definition, satisfy that test*” (our italics).

Even if Members States were forbidden from adopting measures which are more generous to the injured party, which, as we have seen, is not accepted, Eleanor Sharpston’s interpretation seems to forget that, in Article 13, the legislator uses parameters other than equivalence between the compensation and the loss. In this context, we may refer, immediately, to the distinction between the rules on culpable infringement and on bona fide infringement. Other examples are the inclusion of unfair profits obtained by the infringer among the criteria for setting the damages, the provision of the alternative method as a minimum compensation due to the injured party, accepting, in these terms, the assessment according to fairness, or receipt of compensation for moral damages. It is, therefore, accepted that the fault of the perpetrator plays a significant role in Article 13.

The reference in that article to appropriate damages seeks only to guarantee that the injured party obtains redress for the damage suffered, without reduc-

ing proportionality to a mathematical operation of equivalence. On the concept of appropriateness, we can read, for example, in the Judgment of the Court of Justice in *Nadine Paquay v Société d'architectes Hoet + Minne SPRL*, of 11 October 2007 (Case C-460/06): “45. [...] the objective is to arrive at real equality of opportunity and cannot therefore be attained in the absence of measures appropriate to restore such equality when it has not been observed. [...]. 46. [...] Where financial compensation is the measure adopted in order to achieve the objective previously indicated, *it must be adequate, in that it must enable the loss and damage actually sustained as a result of the discriminatory dismissal to be made good in full in accordance with the applicable national rules [...]*” (our italics).

With this aim, the Court of Justice, in the Judgment in *Christian Liffers v Producciones Mandarina SL and Mediaset España Comunicación SA*, of 17 March 2016 (Case C-99/15), decided that the silence of the European legislator was not counter to the possibility of the injured party combining the claim for compensation calculated on the basis of the hypothetical fee with compensation for non-material damage suffered: “26. [...] setting the amount of damages due as a lump sum on the basis of hypothetical royalties alone covers only the material damage suffered by the intellectual property rightholder concerned; consequently, for the purposes of providing compensation in full, that rightholder must be able to seek, in addition to the damages thus calculated, compensation for any moral prejudice which he has suffered.”

The recognition that Directive 2004/48 establishes a minimal harmonisation facilitates acceptance of punitive damages. It will be recalled that the Court of Justice safeguarded the legitimacy of the Member States to provide for compensation which is more favourable to the injured party (20. to 24.): “25. Accordingly, Article 13(1)(b) of Directive 2004/48 must be interpreted as not precluding national legislation, such as that at issue in the main proceedings, which provides that the holder of economic rights of copyright that have been infringed may require the person who has infringed those rights to compensate for the loss caused by payment of a sum corresponding to twice the amount of a hypothetical royalty.” Regarding the intervention of national rights, we may read in recital 17 of the Directive: “The measures, procedures and remedies provided for in this Directive should be determined in each case in such a manner as to take due account of the specific characteristics of that case, including the specific features of each intellectual property right *and, where appropriate, the intentional or unintentional character of the infringement*” (our italics). It is in this context that proportionality is congruent with the provision of punitive damages.

Thus, we believe the Court is not justified in seeking to view the rule in Polish law as a measure which is merely compensatory: “29. [...] without there being any need to rule on whether or not the introduction of ‘punitive’ damages would

be contrary to Article 13 of Directive 2004/48, it is not evident that the provision applicable in the main proceedings entails an obligation to pay such damages. 30. Thus, it should be pointed out that, where an intellectual property right has been infringed, mere payment of the hypothetical royalty is not capable of guaranteeing compensation in respect of all the loss actually suffered, given that payment of that royalty would not, in itself, ensure reimbursement of any costs – referred to in recital 26 of Directive 2004/48 – that are linked to researching and identifying possible acts of infringement, compensation for possible moral prejudice [...] or payment of interest on the sums due.”

These are *eventual* harms. The fact that proof of the extent of the loss is dispensed with makes it impossible to defend the theory that the amount corresponding to twice the fee is compensatory in nature. Indeed, the costs related to researching and identifying infringements are amounts already included in the amount of the hypothetical fee or, otherwise, they may be compensated according to Article 14 of the Directive as separate damages (“Member States shall ensure that reasonable and proportionate legal costs and other expenses incurred by the successful party shall, as a general rule, be borne by the unsuccessful party, unless equity does not allow this”). Favouring the first statement, see the Conclusions presented by Advocate General Henrik Saugmandsgaard Øe on 4 February 2016 in the case *Jørn Hansson v Jungpflanzen Grünewald GmbH* (Case C-481/14, note 51). Regarding the scope of the costs included in Article 14 the Proposal [COM (2003) 46 final] stated: “Article 18 provides for the legal costs, lawyer’s fees and any other expenses incurred by the successful party (for example, investigation costs, costs for expert opinions) to be borne in full by the other party, unless equity or the economic situation of the other party does not allow this. This possibility is partly provided for by Article 45(2) of the TRIPS Agreement.”

Portuguese law serves as a good example of the use of damages as an instrument to appropriately compensate and, at the same time, repress infringement of intellectual property rights. The costs borne by the injured party to protect the right and to research and bring the infringing conduct to an end are expressly included in the calculation of the compensation (Article 211(2) of the Code of Copyright and Related Rights and Article 338-L(2) of the Industrial Property Code). Besides this, the amount of the costs identified is added to the appropriate royalties or fees, when the use of this criterion proves justified (Article 211(5) of the Code of Copyright and Related Rights and Article 338-L(5) of the Industrial Property Code). When applying the alternative method for compensation, the amount is calculated according to equity and covers, at least, the royalties or fees that would have been paid if the authorisation had been requested and the aforementioned costs.

The laws referred to also allow for all or some of the criteria established for setting the compensation to be combined when the infringer's conduct is a repeated practice or proves to be particularly burdensome (Article 211(6) of the Code of Copyright and Related Rights and Article 338-L(6) of the Industrial Property Code). The Portuguese legislator thus permits, and quite rightly, adjustment of damages to the purposes that Directive 2004/48 seeks, and the proportionality of the penalty must be assessed with reference to the characteristics of the unlawful behaviour and not only the loss⁷.

It will be noted, then, that the rules on compensation cannot make respect for or infringement of the intellectual property rights of others indifferent. The consideration of the profits of the infringer is evidence of this aim. The rules on costs also confirm this (Article 14 – the loser pays principle). It was the dissuasion in question which provided the grounds for associating compensation for moral harm to the lump sum method. On this, Advocate General Melchior Wathelet writes in the Conclusions presented on 19 November 2015 (in the *Liffers* case): “33. [...] it would be inconsistent to exclude compensation for moral prejudice from the damages awarded to a holder of an intellectual property right who chooses to seek compensation for pecuniary loss under the lump-sum method provided for in heading (b) of the second subparagraph of Article 13(1) of Directive 2004/48. 34. Such an exclusion would have the consequence of cancelling out entirely any dissuasive effect of the order made against the infringer, as the latter would be required only to reimburse to the rightholder the sum which he would have been obliged to pay the rightholder if he had respected that right, and that sum may be less than the actual prejudice. Such compensation would not, therefore, be in accordance with the European Union legislature's wish to ensure a high level of protection for intellectual property.” How could a different teleology be justified when the practice is repeated or particularly objectionable? And if the European legislator prefers to omit the solution, it must not prevent the Member States from adopting it.

Highly suggestively, the Advocate General Paolo Mengozzi writes in the Conclusions presented on 3 September 2015, regarding the *Arjona Camacho* case: “47. For the Court to hold unequivocally that Article 18 of Directive 2006/54 is to be interpreted as requiring Member States to provide for the award of punitive damages to victims, in cases of discrimination on grounds of sex which come within the scope of that directive, would be for it to adopt a definitive position in a debate which, to my mind, ought to be left to the Member States. [...] 52. This may well be regrettable, conscious as I am that the system of liability described

⁷ On the subject, see Henrique Sousa Antunes, *Da Inclusão do Lucro Ilícito e de Efeitos Punitivos entre as Consequências da Responsabilidade Civil Extracontratual: a sua Legitimação pelo Dano*, Coimbra, 2011, pp. 327 et seq., particularly pp. 551 et seq.

above is far from fulfilling its compensatory function in a systematically satisfactory way [...].”

We may end by stating that in European law itself the importance of punitive damages is understood, since it is established therein. In this sense, Regulation (EC) No 1768/95 of the Commission, of 24 July 1995, implementing rules on the agricultural exemption provided for in Article 14 (3) of Council Regulation (EC) No 2100/94 on Community plant variety rights, provides in Article 18(2)⁸: “If such person has *repeatedly and intentionally* not complied with his obligation pursuant to Article 14 (3) 4th indent of the basic Regulation, in respect of one or more varieties of the same holder, *the liability to compensate the holder* for any further damage pursuant to Article 94 (2) of the basic Regulation *shall cover at least a lump sum calculated on the basis of the quadruple average amount charged for the licensed production of a corresponding quantity of propagating material of protected varieties of the plant species concerned in the same area, without prejudice to the compensation of any higher damage*” (our italics). The European legislator’s prohibitions on punitive damages in the area of collective protection of rights and competition law are, therefore, *somewhat schizophrenic*.

5. Conclusions

Having undertaken this, necessarily brief, critical assessment of the Judgment, our main conclusions are:

- A. We welcome the Court of Justice’s decision insofar as it recognises that, with regard to compensation, Directive 2004/48 lays down a minimal level of protection;
- B. The Judgment also warrants our agreement when it states that requiring the injured party to prove the damage is contrary to the nature of the compensation provided for in Article 13(1) (b) of the Directive (pre-established damages);
- C. From the analysis of the assumptions on which the decision is based one can see a direction which the Court of Justice, unjustifiably, maintains ambiguous: punitive damages are compatible with Directive 2004/48;
- D. The assessment of proportionality cannot only be based on the extent of the loss, if we accept the legitimacy of punitive damages. In this context, the court should take account of the characteristics of the unlawful act, namely the level of fault of the perpetrator or the repetition of his conduct.

8 In “Official Journal”, L 173, 25.7.1995, pp. 14 to 21.