



Damages and legal costs under the Enforcement Directive in the light of rulings of the European Court of Justice

Krystyna Szczepanowska-Kozłowska¹

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Abstract

The possibility of compensation for damage caused by an infringement of intellectual property rights and of claiming the recovery of legal costs and other expenses incurred in connection with enforcing such rights is crucial for the effectiveness of their protection. Uniform rules in this respect have been introduced by Enforcement Directive. (Directive 2004/48/EC of the European Parliament and of the Council of 29.4.2004 on the enforcement of intellectual property rights [2004] OJ L157/45 (Directive 2004/48).) The purpose of this article is to analyse to what extent the case-law of the European Court of Justice to date has made it possible to give an unambiguous answer regarding the model of implementation of Directive 2004/48 which meets the requirements of proportionality and, at the same time, of the effectiveness of the protective measures envisaged for intellectual property rights.

Keywords Damages · Legal cost · Hypothetical licence fee

1 General overview

Before Directive 2004/48, European countries adopted various solutions regarding compensation claims in the event of intellectual property rights infringements. By harmonising protection measures, in particular the method of calculating damages, the European legislature thus wished to strengthen the protection of such rights. If infringements of intellectual property rights are not responded to with adequate measures, the role and importance of such protection becomes limited. Arts. 10 to 15 of

✉ K. Szczepanowska-Kozłowska
k.szczepanowska_kozlowska@wpia.uw.edu.pl

¹ Professor Dr Hab., Department of Intellectual Property Rights and Intangible Goods, University of Warsaw, Warsaw, Poland

Directive 2004/48 deal with the consequences of infringements of intellectual property rights and are certainly the most important part of the Directive. Specifically, Art. 13 of the Directive deals with the question of compensation for damage caused by infringements of intellectual property rights. Art. 14, on the other hand, deals with legal costs incurred in pursuing an action for the protection of intellectual property rights. Pursuant to Art. 2(1) of Directive 2004/48, the measures provided for do not exclude the possibility of Member States envisaging measures offering more advantages to rights holders, which means that Directive 2004/48 sets forth merely minimum standards.¹ At the same time, it obliges Member States, in a manner which is typical of a number of directives, to ensure that measures, procedures and remedies be fair and equitable, not unnecessarily costly and complicated, that they do not entail unwarranted delays, and that they be proportionate, effective and dissuasive and do not entail restrictions on trade at the same time.²

2 Liability for damages and the principle of proportionality

2.1 Special rules for liability for damages in the light of Directive 2004/48

An issue that undoubtedly continuously gives rise to doubts is the answer to the question of the extent to which the European legislator, in introducing specific rules for determining the amount of damages in the case of an infringement of intellectual property rights, allowed, at the same time, for a departure from the classical rule of liability for damages being compensatory in nature.

First, Art. 13 of Directive 2004/48, by introducing damages calculated on the basis of a hypothetical royalty, in a way also determines the minimum amount of damages.³ It seems that this amount may remain unrelated to the amount of the actual prejudice. Secondly, the determination of the amount of damages should take into account the profits achieved by the infringer, which is not envisaged in classical tort law, under which only the situation of the injured party is required to be examined.

2.2 Structure of Art. 13 of Directive 2004/48

To begin our consideration of the principles of liability for damages under Directive 2004/48, the structure of Art. 13 of Directive 2004/48 should be recalled.

Art. 13 of Directive 2004/48 distinguishes between the means of compensation available to the rights holder according to whether or not the person from whom the rights holder seeks damages knew that they were infringing an intellectual property right. Art. 13(1)(a) and (b) of the Directive, which provides for two methods of calculating damages, covers cases of infringement of intellectual property rights in which the person who encroached on the exclusivity of the rights holder was aware of the unlawfulness of his action. According to Art. 13(1)(a), the judicial authorities

¹Case C-264/19 *Constantin Film Verleih*, EU:C:2020:542, para 36 and the law cited therein.

²Art. 3(1) and (2) of Directive 2004/48.

³*Benhamou* [1], p. 125.

“... shall take into account all appropriate aspects such as the negative economic consequences including loss 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 right holder by the infringement.” Art.13(1) (b) states that as an alternative to the calculation of damages which may have occurred on the rights holder’s side, the legal authorities 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”.

Art. 13(2) concerns infringements in which the infringer was unaware of the unlawfulness of his or her conduct. In such cases, the Directive requires the rights holder to have a choice between a claim for the surrender of profits and a claim for damages. It should be stressed that the introduction of compensatory liability where there is no awareness of an infringement is optional.

2.3 Hypothetical royalty in the light of the principle of proportionality

As a preliminary point, it should be noted that the very wording of Art. 13 of the Directive gives rise to doubts as to whether the determination of damages in the form of a hypothetical royalty is merely subsidiary where the rights holder is unable to quantify the damage or where this is made significantly difficult, or whether that method of compensation is simply an alternative and the choice of the appropriate option lies with the rights holder. That doubt was also pointed out in the *Stowarzyszenie Olawska Telewizja Kablowa (OTK)* case by Advocate General Sharpston, who suggested⁴ that the principal way of determining damages is to determine the amount of compensation, based on an analysis of all the circumstances of the case, whereas recourse to a hypothetical royalty is an exception applying where it is not possible to establish actual prejudice. Moreover, referring to the wording of point (b), she suggested that the use of the term ‘at least’ meant that the amount of the hypothetical royalty was the minimum amount that should be paid to the rights holder.⁵

Adopting the view whereby damages in the form of payment of an amount specified as a lump sum are of a subsidiary nature would mean that resorting to this method of calculating damages would depend on it being proved by the rights holder that he or she was unable to demonstrate the value of the loss which determines the amount of damages.

Adopting the view of the subsidiary nature of compensation in the form of payment of an amount determined in a lump sum would mean that recourse to this method of calculating depends on proof by the rights holder of the amount of damage, the amount of which determines the amount of compensation. Nevertheless, it would be necessary to prove the circumstances indicating the existence of damage.

However, the question arises as to whether the determination of compensation on the basis of a hypothetical licence fee at all requires establishing that damage has occurred. Theoretically, it seems possible to adopt a competing view of an alternative

⁴Case C- 367/15 *OTK*, EU:C:2017:36, Opinion of Advocate General, EU:C:2016:900, para. 36.

⁵Case C- 367/15 *OTK*, EU:C:2017:36, Opinion of Advocate General, EU:C:2016:900, paras. 36-39.

way of determining damages on the basis of a lump sum equivalent to the hypothetical licence fee, which would require only that the right holder prove the amount of the hypothetical licence fee or other remuneration which would have been due to him or her if he or she had agreed to use the protected intellectual property asset, without there being a need to show that damage occurred.⁶

This would mean, at the same time, that the possibility of obtaining damages does not need to be of a merely compensatory nature in the case of infringements of intellectual property rights, as is the case in classic liability in tort. For the absence of the requirement of the existence of pecuniary prejudice as a prerequisite for liability for damages would change the compensatory nature of liability for damages, transforming it into liability of a punitive nature. Notwithstanding this, the question arises of how such a hypothetical royalty can be determined. Although this is regarded as requiring a reference to objective market conditions, the actual wording of Directive 2004/48 does not seem to confirm this assumption. There is no doubt that it makes a specific rights holder the point of reference for determining this amount, which could mean that the method of determining the amount of such consideration must take into account the rights holder's actual situation rather than the "market value". This, in turn, leads to the question of how such a royalty should be defined.⁷

It seems that these doubts have not been resolved by the judgments of the European Court of Justice to date. Although three of the Court's judgments concern the rules for determining damages under Art. 13 of Directive 2004/48, they do not provide a clear and unambiguous answer to the question whether a claim for damages, calculated on the basis of a hypothetical royalty, is merely subsidiary.⁸ Although the Court of Justice does not explicitly answer this question, it seems that the wording of the Directive itself does not exclude the possibility of laying down rules on liability for damages in which claims for damages in the form of a lump sum are not subject to any other conditions, e.g., in the shape of the lack of any possibility of determining the actual damage suffered.

The actual wording of the first sentence of Art. 13(1) of the Directive stipulates in general terms that damages are to be appropriate to the actual prejudice, both where they are determined on the basis of all the facts and where the amount of damages is determined on the basis of a hypothetical royalty or other consideration payable where the rights holder has consented for the trade mark or design to be used. While it is common ground that the determination of damages on the basis of all the facts requires proof of actual prejudice, that question is no longer so clear where the amount of damages is supposed to correspond to a hypothetical royalty. The mere reference to a lump sum amount is not, even in theory, related to actual prejudice. It suffices

⁶This is the view that the Commission expressly adopted in its analysis of the implementation of Directive 2004/48 in: Commission Staff Working Document, *Analysis of the application of Directive 2004/48/EC of the European Parliament and the Council of 29.4.2004 on the enforcement of intellectual property rights in the Member States Accompanying document to the Report from the Commission to the Council, the European Parliament and the European Social Committee on the application of Directive 2004/48/EC of the European Parliament and the Council of 29.4.2004 on the enforcement of property rights* COM(2010) 779 final, Brussels, 22.12.2010, SEC(2010) 1589 final, available at <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SEC:2010:1589:FIN:EN:PDF> intellectual.

⁷The complexity of the issue is well illustrated by German practice, see *Schönknecht* [7], pp. 321-326.

⁸Case C-99/15 *Liffers* EU:C:2016:173; Case C-481/14 *Hansson* EU:C:2016:419.

to note that where a given entity does not grant a licence to a protected intangible good, it would be hard to conclude that any “actual prejudice” - understood as damage standing in a causal relationship to the infringement - has occurred at all to its assets in connection with the infringement.

It seems, nevertheless, that the case law of the Court of Justice to date does support the view that the occurrence of loss in the form of actual prejudice must be demonstrated when claiming both damages the amount of which is to be determined on the basis of Art. 13(1)(a) of Directive 2004/48, and damages the amount of which is to be determined on the basis of Art. 13 (1)(b). However, while the rights holder seeking the determination of compensation on the basis of all the circumstances of the infringement should demonstrate the amount of the loss, the question arises of whether it is sufficient for an entity seeking to be paid a hypothetical royalty to demonstrate merely the existence of damage. As can be seen from the Court of Justice case-law cited above, the amount of the actual prejudice becomes a point of reference for determining the amount of the loss established on the basis of a hypothetical royalty.

Such a conclusion is also supported by an analysis of the aforementioned judgments of the Court of Justice for the following reasons.

In the *Liffers* judgment, the Court of Justice noted that damages calculated on the basis of a hypothetical royalty did not take into account non-material damage, i.e., moral prejudice, and therefore took the view that not only a fee constituting a hypothetical royalty might be claimed, but also an amount reflecting non-material prejudice. The Court of Justice notes the following in paragraph 25 of the judgment in *Liffers*⁹:

In the light of the objectives of Directive 2004/48, the first subparagraph of Art. 13(1) of that Directive must be interpreted as establishing the principle that the calculation of the amount of damages to be paid to the holder of the intellectual property right must seek to ensure that the latter is compensated in full for the “actual prejudice suffered” by him, which also includes any moral prejudice.

Thus the Court of Justice underlined that both forms of compensation combine with the damage actually suffered and stressed that a party seeking to be paid lump sum damages must be able to compensate for the existing prejudice in its entirety, which implies the need to take into account also non-material damage. Thus the Court of Justice clearly made also damages in the form of a lump sum, hypothetical royalty conditional on the existence of prejudice on the rights holder’s side and, most importantly, indirectly indicated the need to determine their amount if the prejudice was to be compensated for in full.

A similar conclusion appears justified in the light of the considerations of the court in judgment C-367/15 *OTK*. In that judgment, the Court of Justice accepted the possibility of moderating the amount of compensation. The relevant criterion for moderating the amount of compensation determined in the form of hypothetical licence is the amount of the damage actually caused to that person. It is important to emphasize the argument raised by the Court of Justice that the determination of the lack of proportionality of the royalty awarded and the related abuse of the right should be referred to the amount of damage suffered.

⁹Case C- 367/15 *OTK*, EU:C:2017:36, para. 25.

However, if it is assumed that the person claiming damages in the form of a hypothetical royalty is supposed to demonstrate damage and its amount, the rhetorical question arises of what the point would be of determining damages on the basis of a hypothetical royalty if it were necessary to demonstrate damage, since such a compensation model has also been adopted for those cases in which it is difficult to determine the actual damage suffered. This is confirmed by recital 26 in the preamble to the Directive.

If it is possible to pursue non-material damage claims, somewhat outside the framework laid down by Art. 13(1)(b) as a result of its literal wording, on the other hand, this seems to confirm Advocate General Sharpston's view that this compensation is not exhausted by the amount of a hypothetical royalty. This, in turn, could lead to an interpretation whereby a hypothetical royalty is merely a starting point for determining the loss corresponding to the actual prejudice and thus, in fact, represents a minimum amount that can be sought by the rights holder, but the method to be used to establish the amount appropriate for the non-material prejudice in addition to the amount of a hypothetical royalty is not specified.

However, this also raises the question whether the recovery of non-material damage may also be claimed in cases where material damage has not actually been suffered by the rights holder. That question is well founded in that, for example where the rights holder does not license the intellectual property right, an infringement of the exclusive right does not necessarily cause him to suffer financial loss. Therefore, can a rights holder whose right has been infringed, but who is unable to prove that he has suffered material prejudice, claim damages based on a hypothetical royalty, as well as compensation for moral prejudice suffered?

This in turn raises the question of how the Court of Justice understands actual prejudice. It would seem reasonable in such a situation, in order to establish that damage has occurred, to take the view that damage is constituted solely by an unlawful encroachment on the rights holder's exclusivity, and not by the effect of the encroachment. It is therefore not necessary to show the prejudice, since, in fact, we automatically accept that it arises as a result of non-payment for the use of an intellectual property right.¹⁰ When claiming damages based on a hypothetical royalty, the rights holder is not required to demonstrate any prejudice. He must only demonstrate the existence of an infringement.

The Court of Justice did not consider, however, how the concept of damage was to be understood in the context of infringements of intellectual property rights, leaving this – as it seems for the time being – to the law of individual Member States. This, of course, must lead to differences among particular jurisdictions. For if there are States in which damage is understood as mere encroachment upon the sphere of protected exclusivity, the need to demonstrate anything apart from the infringement itself in order to obtain damages based on a hypothetical royalty undoubtedly does not apply there.

The reference, in the first sentence of Art. 13(1), to actual prejudice which, on the one hand, allows damages to be awarded also for non-material damage, where such damage has occurred, or allows the amount of the hypothetical fee awarded to be

¹⁰Benhaou [1], p. 137-139; Württenberger [10], p. 729.

adjusted (as is apparent from the judgment in the *OTK* case), may support the conclusion that a claim for damages in the form of payment of the amount of the royalty also requires proof of the existence and amount of the prejudice. Such a conclusion would, of course, be justified by a principle of civil law which is fundamental to many systems, and which links the possibility of compensation to the occurrence of material prejudice.

However, such a conclusion, justified in the light of the above-mentioned judgments of the Court of Justice, undermines the rationale of the solution put in place, which was primarily aimed at making the possibility of demanding compensation independent of actual prejudice suffered. Although, in the context of *OTK* judgment, it is widely noted that the Court of Justice did not exclude the possibility of the legislator introducing punitive damages - thus damages going beyond the prejudice suffered - it seems at the same time justified to conclude, in the light of the Court's reasoning, that a claim for a lump sum also depends on the occurrence of some actual prejudice and requires the establishment of its value, as it is the benchmark for deciding that the damages awarded do not constitute an abuse of law.

The question also remains whether, under Art. 13(1)(b), not only moral prejudice but also other heads of damage may be claimed in addition to the hypothetical royalty, on the understanding that the royalty is only a starting point which is somewhat automatic and that any amounts exceeding the royalty depend on the amount of the actual prejudice suffered.

This raises the separate question of how a lump sum can be determined. It would seem to follow from Art. 13(1)(b) that the court should be given a free hand. Admittedly, in the context of Art. 94 of Regulation 2100/94, the Court of Justice, referring to the concept of reasonable compensation, indicated that a royalty as such could not reflect actual damage.¹¹ That led it to conclude that the court was not bound as to the amount of the royalty, but that the royalty could form part of the calculation of the damages. In the same judgment, it held that interest could be claimed in addition to the royalty for the period during which the royalty should have been paid.¹² The fact that the court is not bound as to the amount of the royalty may also ultimately be confirmed by the judgment in the *OTK* case, although it must be borne in mind that the court's statements concerned the specific situation in which the Polish legislature provided for a double royalty. Based on the Court's arguments in its reasoning in the *OTK* judgment, it seems legitimate to adopt the view that the Court of Justice does not rule out moderating the amount of a hypothetical royalty, for example in the case where the relevant legislative act envisages only a single amount of licence fee. Nevertheless, both the conclusion arising from the *Hansson* judgment, and that deriving from the *Liffers* and *OTK* judgements permit the presumption that the Court in a way unknowingly agreed with Advocate General Sharpston that the amount of a hypothetical royalty was just a starting point for the final determination of the amount of damages which might be increased or decreased.

This may lead to the conclusion that the legislature, when implementing the provisions of the Directive, should leave the calculation of the lump sum loss to the court,

¹¹Case C-481/14 *Hansson*, EU:C:2016:419, paras. 50 and 57.

¹²Case C-481/14 *Hansson*, EU:C:2016:419, para. 57.

which should be able to set the lump sum at a level which corresponds as closely as possible to that actual loss. On the other hand, this would rule out the treatment of a hypothetical royalty as a minimum amount of damages payable to the rights holder in each case. The question arises whether this does not distort the idea of lump sum damages. The possibility of moderating the lump sum stems from the fact that as is sometimes pointed out, there exists a danger of overcompensation. It appears, however, that speaking about the risk of overcompensation in the case of an amount determined on the basis of a hypothetical royalty is a logical consequence of referring the amount of the lump sum claim to the amount of actual prejudice. But if we do not relate such damages in the form of a lump sum to any prejudice that may have occurred, there is no justification whatsoever for considering the question of overcompensation. This question arises precisely when we start to moderate or otherwise modify the amount of the lump sum resulting from statutory laws.

In this context, it again seems justified to consider whether lump sum damages should not, however, be a simple alternative to damages calculated on the basis of consideration of all the facts, but as the Court of Justice seems to have suggested in its *Hansson* judgment,¹³ only in those cases in which we cannot precisely establish actual prejudice. If, on the other hand, we wish to use the lump sum amount as an alternative, it seems reasonable to assume that this amount, by its very nature, does not correspond to the loss and constitutes an alternative method of compensation which is not subject to moderation. While the issue of charging interest has not been questioned, whether with respect to damages determined with the use of the method described in Art. 13 (1)(a) or those determined in accordance with Art. 13 (1)(b) of Directive 2004/48, the Court of Justice should consider whether both adding the amount of non-material damage, and moderating the amount determined as a hypothetical royalty is justified in the light of the objective of Directive 2004/48, as well as the function that damages determined on the basis of a hypothetical royalty should perform.

It should be stressed that the Court of Justice failed in the *OTK* case to answer whether damages of a punitive nature, which constituted overcompensation, were contrary to the Directive. At the hearing before the Court of Justice, Polish government's position that the court is not bound by the demand for payment of damages in the amount of twice the royalty fee was not very precise. given the wording of statutory provisions of Polish copyright law and Polish procedural rules. Nevertheless, in this case, it somehow made it possible for the Court of Justice to evade answering the question of the admissibility of damages of a punitive nature. This makes it possible to conclude that overcompensation is not excluded and, most importantly, does not run counter to the requirement imposed by the Directive as to the proportionality of measures applied by statutory provisions.

The essence of the problem brought about by the Court of Justice is actually the denial of the sense of determining damages on the basis of a hypothetical royalty, given the fact that the final amount may still be examined against criteria appropriate for determining damages on general terms and taking into account the circumstances which are irrelevant from the point of view of the rights holder who has not received

¹³Case C-481/14 *Hansson*, EU:C:2016:419, para. 59.

the consideration due to him for the use of a protected asset. The fact that the law applicable in a given jurisdiction provides for a multiple of a royalty, which in my view directly contradicts the current wording of Art. 13(1)(b) of Directive 2004/48, should lead to the denial of the possibility of multiplying this royalty rather than to the establishment of a mechanism which in general calls into question the usefulness of the alternative envisaged in the Directive. It is worth noting at this point that the draft of Directive 2004/48 proposed by the European Commission defined the amount of the lump sum damages as double the amount of a hypothetical royalty. Given that this possibility was ultimately rejected,¹⁴ it seems that, based on an historical interpretation to which the Court of Justice often refers,¹⁵ in the light of the finally-adopted wording of Directive 2004/48, it should be concluded that damages calculated as double the amount of a hypothetical royalty are contrary to the principle of proportionality.¹⁶

Therefore, one should agree with the views which see the wording of Art. 13(1)(b) of Directive 2004/48 as envisaging damages payable in connection with encroachment upon the sphere of proprietary exclusivity and the use of a non-material asset protected by this law.¹⁷ The actual prejudice therefore consists of a third-party using a given asset without the rights holder's consent and this is worth precisely as much as the royalty. If, however, the rights holder believes that the encroachment upon the sphere of exclusivity has brought about further-reaching effects, he or she may claim damages taking into account the entirety of all types of prejudice caused in connection with the infringement of his right. Such an interpretation would also be consistent with the essence of exclusive intellectual property rights and would not open unnecessary questions about overcompensation or punitive damages. Obviously, the issue of whether such damages are determined as a single royalty amount does not lead to establishing that we deal with punitive damages, as long as we do not deliberate on the relationship of the actual prejudice suffered and the amount of the lump sum damages. Yet if we have to compare this with the prejudice actually suffered, lump sum damages lose their sense and no longer perform their function which by nature is

¹⁴*Benhamou* [1], p. 147 stating that “the measure was eventually abandoned as it seemed too close to punitive damages”.

¹⁵Case C- 65/20 *KRONE – Verlag* EU:C:2021:471, para. 25 and the case-law cited therein.

¹⁶It is worth noting that the Proposal for a Directive of the European Parliament and of the Council on measures and procedures to ensure the enforcement of intellectual property rights, Brussels, 30.1.2003 COM(2003) 46 final 2003/0024 (COD), available at <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2003:0046:FIN:EN:PDF> expressly stipulates that lump sum damages should constitute double the amount of the royalties:

Paragraph 1 accordingly lays down that the prejudiced party is entitled either to fixed-rate damages equal to double the amount of the royalties or fees which would have been due if the infringer had requested authorisation (the aim being to provide for full compensation for the prejudice suffered, which is sometimes difficult for the right holder to determine. This provision does not constitute punitive damages; rather, it allows for compensation based on an objective criterion while taking account of the expense incurred by the right holder such as administrative expenses incurred in identifying the infringement and researching its origin) or to compensatory damages (corresponding to the losses suffered by the right holder, including loss of earnings.

See also Kur who gave a positive assessment of the proposed solution. *Kur* [5], p. 828.

¹⁷*Benhaou* [1], p. 137-139; *Würtenberger* [10], p. 729.

purely compensatory. Intellectual property rights are rights ensuring the exclusive use of a non-material asset of a financial nature they protect. Legal exclusivity is to ensure specific material profits to the rights holder. Appropriate consideration payable to the rights holder if a third party wants to also use this asset represents precisely such profits. Thus, there are no sufficient grounds for concluding that an entity encroaching upon exclusivity protected by law should not pay such a fee. Therefore, the Court of Justice should rather treat the concept of damage and of actual prejudice as autonomous concepts under Directive 2004/48 and explain that the actual prejudice may – if the rights holder so chooses – be limited to a hypothetical royalty, acknowledging thereby as well that the choice of compensation is up to the rights holder.¹⁸ The view that a uniform interpretation should be given to the concept of damage under this regulation finds support primarily in the settled case-law of the Court. It has been stressed a number of times that

the terms of a provision of EU law which makes no express reference to the law of the Member States for the purpose of determining its meaning and scope must normally be given an autonomous and uniform interpretation throughout the European Union, having regard not only to its wording but also to the context of the provision and the objective pursued by the legislation in question”.¹⁹

2.4 Damages versus surrender of undue profits

A separate issue, worth noting in the context of Art. 13 of Directive 2004/48, consists of the aspects referred to in paragraph (1)(a) which are to be considered when determining damages on general terms. In principle, the construct of this regulation indicates the factual circumstances that are to be taken into account when determining the amount of loss suffered as a result of a tortious act. An exception are “profits obtained by the infringer” referred to in paragraph (1)(a). This leads to the question of whether the profits obtained by the infringer are only part of the determination of the amount of damages or whether they can be asserted by means of a separate claim.²⁰

A claim to surrender the derived profits has traditionally been included among the compensatory measures in many legal systems. The difference with damages lies in the fact that the starting point for determining the amount of the claim is not the financial loss suffered by the rights holder, but the profits obtained by the infringer. In principle, the profits obtained by the infringer are not a factor to be taken into account in determining the amount of damages. The question therefore arises whether, the legislature intended to limit the possibility of claiming the surrender of profits or to refer to the profits made by the infringer merely as a reliable indicator of the rights holder’s lost profits. This seemed to have been suggested by the Advocate General in the *Hansson* case.²¹

¹⁸For the need for these concepts to be understood autonomously, see also *Johnson* [4], p. 299, where it is noted that Art. 13 does not refer to national law.

¹⁹Case C-18/20 *Bundesamt für Fremdenwesen und Asyl*, EU:C:2021:710, para. 32.

²⁰*Peukert, Kur* [6], p. 293.

²¹Case C-481/14 *Hansson*, EU:C:2016:419, Opinion of Advocate General, ECLI:EU:C:2016:73, paras. 97-104.

It should be stressed that under some legal systems, the possibility of claiming damages and recovering profits obtained has traditionally been excluded, as it was indicated that the two concepts had different functions.²²

The case-law of the Court of Justice does not answer this question. An attempt to answer it in the light of the Court's case-law may only be based on an attempt to interpret rather general assertions by the Court. On the one hand, the *Hansson* judgment (paragraph 40) underlines that the Directive does not require more protective measures to be put in place, but, on the other hand, the *OTK* judgment indicates that there is nothing to prevent States from putting such measures in place. The regulation on the Community plant protection system expressly provides for such a claim in so far as national law so provides. It should not be overlooked that Art. 13(2) of Directive 2004/48 treats a claim for the surrender of profits as an alternative to damages in the event of an infringement committed without knowledge of the unlawfulness of the action. This may serve as a basis for arguing that this claim may be invoked in addition to the claim for damages in situations where the infringer was aware of the unlawfulness of his action. It should however be noted that the wording of Art. 13(2) itself may also serve as a basis for reaching quite the opposite conclusion. Since the profits obtained by the infringer are included in the concept of prejudice to the rights holder in determining the amount of damages pursuant to Art. 13(1)(a) of Directive 2004/48 and, at the same time, the possibility of demanding them to be surrendered separately - as happens in the case of an unknowing infringement - is ignored in determining the amount of damages, this claim is in a way consumed by the specific method of calculating the damages payable to the rights holder. One should agree all the more with those who stress that these profits should certainly not be an element playing a crucial role in determining the amount of damages and, at the same time, an item forming part of a separate claim for surrendering the profits obtained.²³ Such structuring of claims would be contrary to the principles set out in Art. 3 of Directive 2004/48 and would make the measures available to the rights holder lack proportionality.²⁴

3 Legal costs

3.1 Concept of legal costs and other expenses in the light of Art. 14 of Directive 2004/48

Pursuing claims always involves costs to the rights holder. The possibility of the rights holder recovering amounts invested in pursuing claims plays a crucial role in the effectiveness of the protection of intellectual property rights. The costs of preparing and initiating proceedings for infringement of a right to property significantly exceed amounts recoverable under national law. This applies in particular to patent disputes, where the examination of the facts and of the existence of the infringement often

²² Fitzgerald, Firth [3], p. 881; Brodsky [2], p. 514.

²³ See Case C-481/14 *Hansson*, EU:C:2016:419, para. 58.

²⁴ Fitzgerald, Firth [3], p. 882.

requires considerable costs to be incurred even before the proceedings are initiated. Despite the fact that the Court of Justice has referred to Art. 14 of Directive 2004/48 and to the issue of reasonable and proportionate costs several times in its case-law, this regulation should be expected to continue to be the subject matter of the Court's statements in the future.

Art. 14 of Directive 2004/48 stipulates that 'Member States shall ensure that reasonable and proportionate legal costs and other expenses incurred by the successful party shall, as a rule, be borne by the unsuccessful party, unless equity does not allow this'.

In the light of the wording of that provision, two main questions arise. First, which of the expenses claimed by the rights holder in connection with the exercise of his right constitute legal costs and other expenses? Secondly, what criteria determine whether the expenditure incurred must be regarded as reasonable and proportionate?

3.2 Legal costs and expenses recoverable under Art. 14 of Directive 2004/48

As highlighted by the Court of Justice,²⁵ Art. 14 is also intended to strengthen the level of protection of intellectual property rights by ensuring that the expenses related to the enforcement process do not act as a deterrent to the rights holder and do not make him refrain from pursuing his claims. Therefore, the costs to be reimbursed by the unsuccessful party must take into account those which are useful for bringing legal proceedings.

In the view of the Court of Justice, Art. 14 covers lawyers' fees and other expenses related to court proceedings. Other expenses are those which are directly and strictly related to legal proceedings. What is not closely connected with judicial proceedings can be covered by damages.²⁶ The Court of Justice also notes that Art. 14 cannot be interpreted too broadly and therefore only costs that are closely related to court proceedings can be claimed as part of damages under this provision. The criterion therefore constitutes a 'direct and immediate link' with the proceedings. An excessively broad interpretation of Art. 14 would deprive Art. 13 of its '*effet utile*'.²⁷ The Art. 14 must therefore be interpreted strictly, and it must be held that only costs which are directly and closely linked to the judicial proceedings in question are covered by 'other expenditure'. Thus, 'the costs of identification and research [searching for and identifying the infringer]', which are often incurred at previous stages of the procedure, do not necessarily fall within the scope of Art. 14 of the Directive if they are of a general nature in the sense that they were not incurred in connection with specific court proceedings against precisely defined entities against which the action was brought. The criterion concerning the connection of a given expense with court proceedings thus excludes regulations which would make the scope of recovery of the expenses incurred conditional upon whether fault can be ascribed to the infringer.²⁸

A certain modification of this position was introduced by the Court of Justice judgment in *Koch Media*, in which it was held that Art. 14 also applied in cases of

²⁵Case C-681/13, *Diageo Brands*, EU:C:2015:471, para. 77.

²⁶Case C-57/15 *United Video Properties*, EU:C:2016:611, para. 38.

²⁷Case C-57/15 *United Video Properties*, EU:C:2016:611, para. 36.

²⁸Case C-57/15 *United Video Properties*, EU:C:2016:611, para. 37.

out-of-court procedures if these replaced a judgment. The costs incurred in connection with the conclusion of a pre-litigation settlement also constitute other expenses within the meaning of that provision. The inclusion of such expenditure under Art. 14 does not, therefore, depend on the type of procedure, but on whether that particular procedure is for law enforcement purposes established by Directive 2004/48.²⁹ The fact that expenses relating to extra-judicial procedures are covered by the recovery obligation does not, obviously, imply that all such expenses may be covered by the recovery obligation. As in the case of expenses relating to court proceedings, the decisive criterion will be a direct and strict connection with the specific proceedings.³⁰

3.3 Recoverable legal costs and expenses

The application of Art. 14 is closely linked to the question of whether the costs which have been incurred and which are recoverable are reasonable and proportionate. There is no broader attempt to define those concepts, and individual cases before the Court provide only answers to specific questions raised. However, the case-law to date allows certain general principles to be formulated for the purposes of assessing whether expenses incurred in judicial proceedings are reasonable and proportionate. As was pointed out by the Court of Justice since the terms ‘reasonable and proportionate legal costs’ in that provision make no express reference to the law of the Member States for the purpose of determining their meaning and scope, they must normally be given an autonomous and uniform interpretation throughout the European Union, irrespective of their treatment in the Member States³¹ One cannot help thinking, however, that - despite what has been said a number of times - it is not easy to answer the question of whether legal costs and other expenses incurred by a party in a specific case fall under the concept of reasonable and justified costs and expenses. The Court of Justice believes that the assessment of whether specific legal costs and other expenses are reasonable should be made based on two criteria. Reasonable costs and expenses are those which do not make proceedings excessively expensive. The Court notes at the same time that the reasonableness requirement is not met by rates which are extremely high and costs which are not indispensable to enforce intellectual property rights. While it would be hard to disagree with these assertions by the Court of Justice on a general level, applying them in a specific case involves uncertainty. Doubt arises as to the criteria that are crucial for concluding that the proceedings are excessively expensive or that the fees payable to attorneys are excessive, especially when assessed in the context of their indispensability. What makes the engagement of an attorney charging a higher fee indispensable?

As far as excessively expensive proceedings are concerned, the question arises straight away of whose point of view should be adopted in assessing whether costs are excessive. The point of view of the entity enforcing the right may be completely different from that of the infringer, which may be related to the very different financial situations of these entities, the business strategies used by them or how important the

²⁹Case C-559/20 *Koch Media*, EU:C:2022:317, para. 39.

³⁰Case C-559/20 *Koch Media*, EU:C:2022:317, para. 41.

³¹Case C-531/20 *Nova Text*, EU:C:2022:316, para. 26.

issue of protection of intellectual property rights is for them. From the rights holder's point of view, the costs of the proceedings, compared e.g., with the actual prejudice suffered, may be assessed differently than from the point of view of the infringer, whose profits that have been derived from the infringement are not the same as the prejudice suffered by the rights holder. It cannot be ignored that, in order to assess proceedings as excessively costly, one always has to refer to specific indicators which make it possible to objectivise the assessment, but which the Court fails to specify. Similar doubts arise when assessing the amount of fees charged by intellectual property attorneys.

The decision as to what portion of the costs incurred, and regarded as reasonable, should be recovered by the party winning the case is even more complex. It may be argued that Art. 14 of the Directive does not imply that the party losing the case should necessarily refund all the costs incurred by the other party, but that the winning party has the right to recover at least a significant portion of the entirety of the actually incurred reasonable costs is settled in the Court of Justice's case-law.³²

A court must always be able to determine the amount to be recovered when deciding whether the costs are reasonable and proportionate, even in a case where the costs have been stated at fixed rates.³³ Regrettably, the Court of Justice did not choose to specify appropriate criteria for assessing "considerable and appropriate" costs to be recovered, either in its ruling in the *Koch Media* case, or in that on the *Nova Text* case. On the other hand, in paragraph 58 of the *Koch Media* judgment, the Court of Justice seemed to indicate that in principle, based on Art. 14 of Directive 2004/48, the winning party should recover all reasonable and proportionate costs, unless equity did not allow this. Thus, this standpoint of the Court of Justice may be interpreted as a certain modification of the rule applicable to date and leading to the conclusion that the only legal costs and other expenses which are not included in considerable and appropriate costs are those incompatible with the rules of equity.³⁴ This seems all the more important if we consider that, as explained by the Court of Justice, the assessment of whether expenses are proportionate does not depend on whether the infringer is a natural person not engaged in economic activity or whether the infringement was committed in the context of an activity on a commercial scale. Although Directive 2004/48 differentiates certain measures of protection in those cases where the infringement has been committed "on a commercial scale", this does not apply to the assessment of the proportionality of costs referred to in Art. 14.³⁵

4 Conclusion

The conclusions stemming from the judgments interpreting Arts. 13 and 14 of Directive 2004/48 lead to the view that the Court of Justice has not yet said its final word.

³²Case C- 57/15 *United Video Properties* EU:C:2016:611, para. 29, see also *Slowinski*, [8] p. 376.

³³Case C-531/20 *Nova Text* EU:C:2022:316, paras. 50-54.

³⁴See also *Touissant* [9], p. 1803, see also Case C-531/20 *Nova Text*, EU:C:2022:316, paras. 36 and 39.

³⁵Case C- 559/20 *Koch Media*, EU:C:2022:317 para. 53.

Such an opinion seems to be justified both with regard to the prerequisites for awarding damages based on a hypothetical licence fee, the determination of its amount, and the interrelationship between a claim for damages and a claim for the infringer's profit recovery. In this writer's opinion, also the recent judgments concerning the amount of court legal costs incurred by the losing party in a lawsuit for the infringement of intellectual property rights do not give litigants sufficient certainty as to what costs are reasonable and proportionate and to what extent they are recoverable.

Declarations

Competing Interests The author declares no competing interest.

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