



Study Question

Submission date: May 4, 2017

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Quantification of monetary relief

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I. Current law and practice

Please answer all questions in Part I on the basis of your Group's current law.

1 What rules and methods are applied when quantifying actual loss?

In particular, please describe:

- a) the method used to determine the diversion of sales, i.e the part of the infringing sales that the rightholder would have made but for infringement;**
- b) what level of profit margin is taken into account.**

In order to claim loss, the person claiming the loss shall prove the causation between the infringement and loss. Loss subject to compensation may be patrimonial or non-patrimonial. Patrimonial loss includes, primarily, direct patrimonial damage and loss of profit. Direct patrimonial damage includes, primarily, the value of the lost or destroyed property or the decrease in the value of property due to deterioration even if such decrease occurs in the future, and reasonable expenses which have been incurred or will be incurred in the future due to the damage, including reasonable expenses relating to the prevention or reduction of damage and receipt of compensation, including expenses relating to the establishment of the damage and submission of claims relating to the compensation for the damage. Loss of profit is loss of the gain which a person would have been likely to receive. Loss of profit may also include the loss of an opportunity to receive gain.

If loss is established but the exact extent of the loss cannot be determined, the amount of compensation shall be determined by the court. If compensation for damage is claimed due to violation of copyright or related rights or violation of industrial property right, the court may, if this is reasonable, determine compensation for the damage as a fixed amount, taking account, inter alia, the amount of fee the violator should have paid if it had obtained authorisation for the use of the relevant right, i.e. a hypothetical license fee.

When taking into account the profit margin upon quantifying actual loss, direct costs incurred by the infringer shall be deducted from the profit margin. However, general costs, such as employment costs, administrative costs etc., are not deducted from the profit margin.

Regarding the infringement of the IP rights of the database maker, the Estonian Supreme Court has stated that the owner of the IP rights shall have the right to claim the investment it made when creating such IP. However, equaling loss with all the economic costs of the IP rights holder would not be justified. When quantifying the loss, the courts should take into account the duration of the violation, volume of the violation (for example, regarding the infringement of the IP rights of the database maker, the Estonian Supreme Court stated that the difference between the database created by the infringer and the database of the person whose IP was infringed shall be taken into account) and how much the consumers have used the infringer's product/services (for example, regarding the infringement of the IP rights of the

database maker, the Estonian Supreme Court stated that, the number of visits on the infringer's web page which uses the IP illegally shall also be taken into account).

Pursuant to Estonian legislation, a person whose IP rights were infringed may demand that a violator who is or should be aware of the lack of justification for the violation transfers any revenue received as a result of the violation in addition to the actual loss. The infringer shall also be obliged to inform of the nature of the revenue it received by the violation.

Also, the practice and case law of the Court of Justice of the European Union (CJEU) is applied by Estonian courts and it is common practice to refer to the CJEU case law. Therefore, the methods and rules applied by the CJEU when quantifying actual loss shall be applicable in Estonia too. For example, in case C-367/15 (in case *Stowarzyszenie "O?awska Telewizja Kablowa"*) the CJEU has stated that the holder of economic rights of copyright may require that the infringer compensates for the loss caused by the payment of a sum corresponding to twice the amount of a hypothetical royalty. Pursuant to current case law in Estonia, the courts have not yet adjusted that the infringer shall compensate the payment of a sum corresponding to twice the amount of a hypothetical royalty, however, it is not excluded that the court would adjust such compensation in the future.

2

What rules and methods are applied when quantifying a reasonable royalty?

In particular, please describe:

- a) the royalty base;**
- b) how relevant comparables among licence agreements are defined;**
- c) how a reasonable royalty is quantified in the absence of relevant comparables;**
- d) the nature of the royalty, e.g. lump-sum, percentage of revenues or profit, a mix?**

The case law in Estonia regarding the quantification of monetary relief in relation to the infringement of IP rights is not well established because there have not been very many cases in the Supreme Court. Therefore, the current case law has not yet settled strict rules and methods which are applied when quantifying a reasonable royalty.

However, pursuant to the current practice and pursuant to the instructions given in legal literature, when quantifying a reasonable royalty, the court shall evaluate on what conditions a reasonable licensor and licensee would have concluded a license agreement in the current case. The court shall take into account the positions of both parties and evaluate the royalty base which the licensor would have demanded and the royalty base which the licensee would have accepted. Both parties shall provide the court with respective evidence that would prove their positions and prove what a reasonable royalty base would have been.

When quantifying a reasonable royalty, courts shall consider, among other, the brand value, the level of knowledge of the brand, reputation of the brand among consumers and the likelihood of confusion among the customers caused by the infringement.

The courts shall determine the average royalty bases used in the relevant market sector and also, the conditions under which the person whose IP rights have been infringed has previously concluded the license agreements. If there is no licensing practice in this certain market sector, the court shall evaluate what would have been a reasonable royalty base which the parties would have agreed on in a hypothetical case of negotiations.

The nature of the royalty adjudged is usually a lump-sum but the law does not exclude the possibility to adjudge the reasonable royalty as the percentage of revenues or profit.

3

What rules and methods are applied when quantifying the infringer's profits, as part of quantifying damages?

In particular, please describe:

- a) the method to determine the profits resulting from the infringement, i.e. resulting from the use of the IP right;**
- b) what level of profit margin of the infringer should be taken into consideration.**

When quantifying the infringer's profits, the courts shall evaluate the income earned by the infringement and shall deduct the direct costs incurred by the infringer upon earning such profit. When deducting the direct costs, general expenses, such as employment costs, administrative costs etc., are not deducted from the profit margin.

4.a

What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty in relation to conveyed goods.

Please see answers to questions 1 and 2 regarding the rules and methods applied.

In relation to option a) above, it would be possible to claim all the revenue earned by the infringer regarding those goods.

4.b What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty where the infringing product forms part of a larger assembly.

Please see answers to questions 1 and 2 regarding the rules and methods applied.

Court practice regarding options b)-d) above is not well established. Presumably it would be possible to claim all the revenue earned by the infringer regarding the infringements referred by the options b)–d), too.

4.c What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty where the IP rights found infringed are routinely licensed together with other IP rights as a portfolio?

Please see answers to questions 1 and 2 regarding the rules and methods applied.

Court practice regarding options b)-d) above is not well established. Presumably it would be possible to claim all the revenue earned by the infringer regarding the infringements referred by the options b)–d), too.

4.d What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty when the damage suffered by the rightholder is related to competing goods which do not implement the infringed IP rights?

Please see answers to questions 1 and 2 regarding the rules and methods applied.

Court practice regarding options b)-d) above is not well established. Presumably it would be possible to claim all the revenue earned by the infringer regarding the infringements referred by the options b)–d), too.

5 Are any of the rules and methods addressed in your answers to 1) to 4) above different when considering the damage suffered by the rightholder or by its licensee?

No.

6.a What kinds and types of evidence are accepted for proving the quantum of actual loss.

Estonian case law does not restrict the types of evidence that could be submitted by the parties. Both parties can submit to the court all evidence they find suitable. Then the court evaluates all evidence pursuant to the law thoroughly and objectively from all perspectives and decides, according to the conscience of the court, whether or not the relevant evidence proves the arguments presented by a participant in a proceeding.

6.b What kinds and types of evidence are accepted for proving the quantum of reasonable royalties.

Estonian case law does not restrict the types of evidence that could be submitted by the parties. Both parties can submit to the court all evidence they find suitable. Then the court evaluates all evidence pursuant to the law thoroughly and objectively from all perspectives and decides, according to the conscience of the court, whether or not the relevant evidence proves the arguments presented by a participant in a proceeding.

6

For example, is expert accounting evidence on past licensing practices accepted?

For example, expert accounting evidence on past licensing practices, evidence proving the costs incurred by the victim of the infringement in order to stop the infringement (including legal fees) etc. can be accepted.

7

What mechanisms (e.g. discovery) are available to the rightholder to assist with proving the quantum of actual loss or reasonable royalties?

If an action is filed due to an infringement or danger of infringement of copyright and related rights or industrial property rights, the court may require at the reasoned request of the plaintiff that the defendant or another person provide written information concerning the origin and distribution channels of the goods or services infringing a right arising from intellectual property. The court may request such information from a person infringing the rights or from any other person who is or has been in possession of the goods infringing the rights, has used the services which infringe the rights, has provided services used for any activities infringing the rights or has participated in the production or distribution of such goods, or provision of such services.

The information requested by the court may include, among others, the following data

the names and addresses of the producers, manufacturers or distributors of the goods or services, the names and addresses of the suppliers of the goods or services or the previous possessors of the goods or services, and the names and addresses of the persons who ordered the goods or services or the points of sale thereof

the quantities of the goods which were manufactured, produced, distributed, received and the prices paid for the goods or services

If the court requests such information, such information shall not be used outside of the court proceeding in the course of which such information was requested.

Kindly note that the right of the court to request such information, as explained above, does not restrict the right of the court to hear the persons submitting such information in the proceeding in the capacity of witnesses. In such a case, such persons would be, however, entitled to refuse to submit information on the same grounds as they may refuse to give testimony as a witness. The court shall explain such right to the persons at the time of requesting the information.

8

How, if at all, does the quantification of damages for indirect/contributory infringement differ from the quantification of damages for direct infringement?

The quantification of damages for indirect infringement does not differ from the quantification of damages for direct infringement. Estonian legislation does not make difference between direct and indirect loss.

9

Are forward-looking damages (e.g. damage in relation to an irreversible loss of market share) available

c) or not at all?

Please explain your answer

Pursuant to the current court practice in Estonia, forward-looking damages have not been adjusted in IP infringement cases.

10

Is the bad faith of the infringer taken into account in the assessment of the damage?

Yes

If so, how is bad faith defined and is it possible to infringe a patent in good faith?

Yes, the bad faith of the infringer is taken into account in the assessment of the damage.

Bad faith relates to the awareness of committing the violation. The person whose IP rights were violated is entitled to claim from the infringer who was aware or should have been aware of the fact that it is violating someone's IP rights, to transfer all and any revenue received as a result of the violation.

It is possible to infringe a patent in good faith too.

11

How do courts take into account the damage suffered between the date of the infringing acts and the date of the award of damages?

The courts award the damages for the entire infringement period.

II. Policy considerations and proposals for improvements of your Group's current law

12

Are there aspects of these laws that could be improved?

No, there are no specific aspects of the laws to be improved. However, as the current case law regarding the quantification of monetary relief in relation to infringement of IP rights is not well established in Estonia, there is no clear practice on how the monetary relief is calculated. More clear and concise schemes to calculate the compensation, including the compensation for moral damage caused, would be appreciated.

3.a

If the Court determines a reasonable royalty by reference to a hypothetical negotiation, should the Court's assessment of the hypothetical negotiation be under an assumption that all the IP rights in suit are valid and infringed?

3.b

If the Court determines a reasonable royalty by reference to a hypothetical negotiation, should the Court first be required to find that all the IP rights in suit are valid and infringed?

Yes

Please Explain

If certain IP rights have not been infringed, it would not be possible to claim the compensation of the damages regarding such IP rights

14

If the Court does not determine a reasonable royalty by reference to a hypothetical negotiation, what factors and what evidence should be relevant in that determination?

Both parties should be able to submit to the court all evidence they find suitable in the current case, including expert opinions, expense documents, etc.

15 Should the quantification of damages depend on whether injunctive relief is granted, e.g. should forward-looking damages for a loss of market share be available if an injunction is also being granted or only if an injunction is not granted?

Methods of the quantification of damages should not depend on whether injunctive relief is granted. However, if the injunctive relief stops the infringement, forward-looking damages for a loss of market share should not be available. If the injunctive relief does not stop the infringement, forward-looking damages for a loss of market share should be available also if the injunction is granted.

III. Proposals for harmonisation

16 Is harmonisation of the quantification of damages desirable?
*If yes, please respond to the following questions without regard to your Group's current law.
Even if no, please address the following questions to the extent your Group considers your Group's current law could be improved.*

Yes

Please Explain

Yes, harmonization of the quantification of damages would be desirable. More clear and concise schemes to calculate the compensation, including the compensation for moral damage caused, would be appreciated.

17 Please propose the principles your Group considers should be applied when quantifying actual loss

Negative economic consequences, including lost profits, lost or diverted sales, loss of market share and pricing advantage, the likelihood of consumer confusion, reputational damage caused by the infringement, any unfair profits made by the infringer, moral prejudice caused to the rightholder by the infringement, prior investments made by the rightholder from which the infringer has unfairly taken advantage of, infringer's bad faith, brand reputation among customers, reasonable royalties in analogous situations, duration of the violation.

18 Please propose the principles your Group considers should be applied when quantifying reasonable royalties

Same basic principles that apply when quantifying actual loss, shall apply when quantifying reasonable royalties.

8.a Explaining in particular the relevance, if any, of a hypothetical negotiation and whether the hypothetical negotiation should be under the assumption that the IP rights being negotiated were or were not found valid and infringed;

A hypothetical negotiations shall also be considered. Hypothetical negotiation should not be under the assumption that the IP rights being negotiated were valid and infringed.

8.b Explaining in particular the relevance, if any, of prior licensing practices or prior going rates for licensing the IP rights in suit

Prior licensing practices and prior going rates for licensing the IP rights in suit shall also be taken into consideration when quantifying reasonable royalties.

8.c Explaining in particular the relevance, if any, of prior licensing practices or prior going rates for licensing other IP rights of third parties that may or may not be similar to the IP rights in suit

However, we are on the position that the rightholder shall be able to demand that infringer compensates to it the higher amount than a hypothetical royalty, respective coefficient shall depend on the circumstances of the case, including depending whether the infringer was acting in good faith/bad faith and depending on the duration of the violation.

9.a Please propose, in relation to actual loss and reasonable royalties how conveyed goods should be dealt with

In relation to actual loss and reasonable royalties, profits from the conveyed sales and sales of related accessories shall be included and taken into account when quantifying the actual loss and royalty base.

9.b Please propose, in relation to actual loss and reasonable royalties how competing goods of the rightholder, not making use of the patent, should be dealt with

Profits from competing goods of the rightholder, not making use of the patent, should not be include in the royalty base.

9.c Please propose, in relation to actual loss and reasonable royalties how damages should be determined when the infringing product forms part of a larger assembly

When the infringing product forms part of a larger assembly, profits earned from sales of such larger assembly shall be taken into account when quantifying the actual loss and royalty base.

20 Please propose principles your Group considers should be applied when quantifying the damages for indirect/contributory infringement in circumstances where there is no direct infringement of the IP rights in suit.

In circumstances where there is no direct infringement of the IP rights in suit, the rightholder should not be able to claim loss because of the infringement of the IP rights.

21 Please comment on any additional issues concerning any aspect of quantification of damages you consider relevant to this Study Question.

No additional comments.

Please indicate which industry sector views are included in part "III. Proposals of harmonization" on this form:

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Ants NÕMPER