Questions

1) a) Does your country have a concept of punitive damages?

The concept of punitive damages, as such, is not existent in Germany. However, the method of damage calculation aiming at a recovery of the infringer’s profit is regarded in court rulings as implying a sanctioning and preventive element. (See detailed comments below, further to Q186.6.)

b) If so, does it apply to patents, trade marks and other IPR?

Not relevant.

c) Would the possibility of an award of punitive damages be of benefit in infringement cases?

The aspired benefit of punitive damages, i.e. providing for an increase of the compensation for damages by a penal surcharge in appropriate cases irrespective of the method of damage calculation, would be the benefit of an increased general prevention. Whether this benefit is de facto obtainable, however, appears to be doubtful. In conclusion, we answer this question in the negative. Regardless hereof we consider the concept of a lump sum calculation of damages in the form of a principally increased royalty rate to be appropriate for other reasons (see comments below, further to Q186.6).

In detail:

I) The addressed additional preventive effect can on principle only be achieved in cases where, on the one hand, the otherwise awarded compensation for damage is too low for having someone deterred from committing an act of infringement and if, on the other hand, the punitive damages markedly exceed the otherwise obtainable compensation for damage.

This kind of situation was existent in Germany up to a few years ago. The compensation for damage awarded in practice was in most cases limited – despite three theoretically available methods of calculation, namely the license analogy, the compensation for lost profits and the recovery of the infringer’s profit – to a simple,
appropriate royalty\(^3\). The infringing party was thus not discriminated against the ordinary licensee. The risk of damages was calculable and no deterrent effect was produced here.

This situation, however, has meanwhile been fundamentally changed. With the so-called “overhead share decision” of the Federal Court of Justice (BGH)\(^4\) the infringer’s profit superseded the license analogy as the most important method of damage calculation. The infringer’s profits, which have recently been claimed by (alleged) application of said decision, often amount in patent disputes to 30 – 50% of the turnover realized with the infringing object, whereas the conventional royalty rates mostly range between 1% and 10% only (see in this context our detailed comments set out below after Q186.6).

The risk of suffering a loss of one third or even half of the turnover attained with an infringing product is however likely to sufficiently encourage enterprises to avoid infringements of property rights. An added preventive effect produced by additionally increased punitive damages is in contrast hardly to be expected.

The discussion relating to an available benefit of punitive damages is from a German point of view therefore of a theoretical nature, as long as this method of calculation is not clearly limited by court rulings pronounced in respect of the infringer’s profit (see comments below, further to Q186.6).

II) Once proceeding on the assumption that an additional preventive effect is in the light of a low risk of damages basically to be taken into consideration, the question arises whether such preventive effect will go beyond the effect produced by the – still existent – sanctions under criminal law.

The punishable acts in Germany are in general only intentional infringements of property rights, for instance according to Section 142 I of the Patent Act (PatG), Section 143 I; 143 a I of the Trademark Act (MarkenG), or Section 51 I of the Design Act (GeschmG). Though, it is only for such cases that – modelled on the US-American “wilful infringement” – punitive damages are likely to be put up for discussion at all. At the same time it does not appear reasonable to distinguish between intent within the meaning of civil law and criminal law, so that the case groups concerned are identical here. In other words: punitive damages are only to be considered in cases where infringements of property rights are concerned, which are also punishable under the applicable law.

Cases of this type are rather rare under patent law, as the error regarding the existence and momentousness of a patent excludes the intent\(^5\), and as disputes are regularly – and indeed can often be – conducted on this issue. In contrast, an intent is more often likely to be given in cases of an infringement of labelling rights and designs – particularly in cases of apparent counterfeit merchandise\(^6\).

---

\(^3\) See Reimann, “Report Q 136 for the German AIPPI National Group”, No. 43, in approx. 95% of the cases.

\(^4\) See Federal Court of Justice (BGH) GRUR 2001, 329, 331/332 “overhead cost share”.


Against this background the question regarding the preventive benefit of available punitive damages is reduced to the question as to whether notorious free-riders and product pirates, whose acting persons are anyway already threatened with punishment, will additionally be deterred by the risk of punitive damages imposed on them and on their enterprises. In the end, this is a matter to speculate about. However, there is no obvious and imperative reason why these persons should be more impressed by an increased risk of damages than by an imminent term of imprisonment of up to three years.

III) In the light of these circumstances we do not see any imperative or convincing benefit entailed by the possibility of awarding punitive damages for prevention purposes. The question is therefore to be answered in the negative, even if the currently asserted, in part excessive alleged profits of the infringer are left out of account. As already mentioned, this does not affect the circumstance that in our opinion a lump sum calculation of damage in the form of a principally increased royalty is appropriate for other reasons (see comments below, further to Q186.6).

d) Is your Group in favour of courts having power to award such damages in IP cases?

From a German point of view we regard such power as not advisable for two reasons, which however do not exclude the possibility of a lump sum calculation of damages e.g. in the form of an increased royalty, which is not or at any rate not primarily aimed at a punishment (see comments below, further to Q186.6).

On the one hand, we have our doubts – as explained above – about the preventive benefit of punitive damages. On the other hand, we regard such a commingling of civil law and criminal law components as entailing problems in the German legal system, which provides for a state-run penalization monopoly. In view of the doubtful benefit of available punitive damages we also do not see any inducement for testing the otherwise well-proven system.

2) If punitive damages are available:

a) In what types of situations can punitive damages be awarded?

b) How is the amount (quantum) of damages assessed?

Not relevant.

3) Is there an obligation on a party to take legal advice to ensure there is no infringement? If so

a) what is the obligation and when does it arise and

b) how is that advice assessed in subsequent infringement proceedings?

We proceed on the assumption that this question is primarily aimed at obligations which, if violated, gave in the American system rise to presume a “wilful infringement” prior to the “Knorrbremse” decision of the CAFC, and regularly entailed the consequence of punitive damages. But since no punitive damages as such are existent in Germany, this issue is not relevant here.

The request for legal advice can furthermore be significant in dealing with the question of negligence, as a prerequisite for the claim for damages. However, the request for legal advice is in practical terms hardly likely to lead to a denial of negligence and thus to an exemption from the liability for damages. There are only minor requirements under court rulings as to negligence⁷. According to the established practice of the courts an error in law is only regarded as excused, if there was no need for the person being mistaken to reckon – in exercising the care as is usual in the ordinary course of business – with a different judgment pronounced by the courts.

⁷ See Federal Court of Justice (BGH) GRUR 1998, 568 – “Beatles Double CD”.
4) a) Is there a pre–trail discovery system which allows an IP owner to review the defendant’s behaviour?
   No.
b) If so, are the parties required to give discovery of documents held abroad?
   Not relevant.

5) What is the impact in court proceedings in your country of the ability of courts in other countries to award punitive damages?
   There are no obvious impacts. Germany, on the contrary, is a popular location for claiming industrial property rights. What is in this regard clearly more important than the available award of punitive damages is likely to be the existence of a quick, effective and comparatively costadvantageous administration of justice.

6) Proposals for harmonising the treatment of punitive damages and the processes concerning them in court proceedings?
   For the reasons discussed above, we come out against the introduction of punitive damages. Nonetheless we consider it desirable that the infringed party shall in regular cases be awarded an increased, in particular an 1,5 to 2 times royalty rate as lump sum compensation for damage. Our approach is however not based on penal reflections, all the more so as a correspondingly increased royalty is also not implicitly likely to exceed the profit of the infringer, but is rather appropriate as lump sum compensation.

   In detail:

   Starting position

   a) According to the established practice of German courts the infringed party, who may claim damages on the grounds of a culpably illegal patent utilization, has currently the choice between three alternative types of calculation: the license analogy, the compensation for lost profits and the recovery of the infringer’s profit8.

   In practice, however, the claim for recovery of the infringer’s profit, just like the claim for compensation for lost profits, have for decades been marked by a shadowy existence in the entire protection of industrial property and particularly in patent infringement proceedings. In normal cases, as already mentioned above, the – simple – license analogy was instead taken as a basis for damage calculation9.

   With the so–called “overhead share” decision of the Federal Court of Justice (BGH) the method of calculating the recovery of profit has considerably gained in importance. The aforesaid decision relating to the Design Act was issued by the 1st Division for civil matters of the Federal Court of Justice. In several rulings of the courts of lower instance, however, the decision was transferred to Patent Law straight away10. This ruling is likewise applied to trademark infringements11, but subject to the restriction that only that share in the infringer’s profit is to be recovered, which can precisely be put down to the trademark infringement12.

---

8 See Busse/Keukenschrijver, “Patent Act” (PatG), 6th edition, Section 139, lit. 125 et seq., with important supplements.
9 See Reimann, “Report Q136 for the German AIPPI National Group”, No. 43, in approx. 95% of the cases.
10 See Higher Regional Court (OLG) of Düsseldorf, file no. 2 U 91/00; District Court (LG) of Düsseldorf, InstGE 1, 276 – “clamping ring”; District Court (LG) Munich, InstGE 3, 48 – “lawn honeycomb”.
11 See Ströbele/Hacker, “Trademark Act” (MarkenG), 7th edition, Section 14, lit. 308 with important supplements.
12 See Ströbele/Hacker, “Trademark Act” (MarkenG), 7th edition, Section 14, lit. 309 with important supplements.
According to the essential contents of said decision the infringer’s profit shall, on the basis of the turnover achieved with the infringing object, be determined through deduction of the costs which can directly be attributed to the product concerned. Lump sum deductions of overhead costs may, on the other hand, not be made. The underlying details are controversially discussed in literature and have not been conclusively clarified in judicial decisions. The amount of the currently sued (alleged) infringer’s profits ranges – as already mentioned – from 30% up to 50%, which is likely to be correct in exceptional cases only.

Upon determination of the infringer’s profit it is furthermore unclear how the infringer’s profit is in the particular case to be ascertained for complex products, which fulfil a multitude of property rights. Finally it is an open issue whether and to what extent the profit can in case of several commercial scales be repeatedly absorbed by the property right holder, i.e. at each level of trade, and whether or up to which amount a joint and several debt might be existent in between the commercial scales.

b) The three freely selectable methods of calculating the infringer’s profit are also compatible with the instructions given in the Directive 2004/48/EC of the European Parliament and of the Council of April 29, 2004 on the enforcement of intellectual property rights (hereinafter referred to as “the Directive”). In detail, Article 13 of said Directive, dealing with the damages issue, reads as follows (emphasis added by the reporters):

(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 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


14 Published: Federal Court of Justice (BGH), GRUR 2001, 329, 331/332 “overhead share”; Higher Regional Court (OLG) Düsseldorf, file no. 2 U 91/00; District Court (LG) Düsseldorf, InstGE 1, 276 – “clamping ring”; District Court (LG) Munich, InstGE 3, 48 – “lawn honeycomb”. Numerous additional proceedings pending before the courts of higher instance were compared, so that a lot of individual questions have not yet been decided. It can, however, be clearly inferred from reference orders and oral hearings, as well as from a lecture given at the University Münster by the Judge at the Federal Court of Justice Dr. Peter Meier–Beck on December 10, 2004 that costs actually incurred, which can be attributed to an infringing product, are also to be taken into account upon determination of the infringer’s profit – irrespective of whether these costs might in terms of business management be treated as overhead expenses or not.


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 become due if the infringer had requested authorization 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.

Of special significance for the interpretation of this Article are the grounds set forth in the whereas–clauses 17, 25 and in particular 26, which reads as follows (emphasis added by the reporters):

(26) With a view to compensating for the prejudice suffered as a result of an infringement committed by an infringer who engaged in an activity in the knowledge, or with reasonable grounds for knowing, that it would give rise to such an infringement, the amount of damages awarded to the rightholder should take account of all appropriate aspects, such as loss of earnings incurred by the rightholder, or unfair profits made by the infringer and, where appropriate, any moral prejudice caused to the rightholder. As an alternative, for example where it would be difficult to determine the amount of the actual prejudice suffered, the amount of the damages might be derived from elements such as the royalties or fees which would have been due if the infringer had requested authorization to use the intellectual property right in question.

With regard to the implementation of the alternatives for calculating the damages as mentioned in Article 13 paragraph 1 subparagraphs a) and b), the German Association for industrial property protection and copyrights (GRUR) in a letter addressed to the Federal Ministry of Justice on November 26, 2004, just as the GRUR Technical Committee for Patent Law in its meeting held on December 13, 2004, argued in favour of a sustained right of the Plaintiff to freely select between the three methods of calculation of damages – namely the license analogy, the own lost profits and the infringer’s profit. The formulation “in appropriate cases”, as used on Article 13 paragraph 1 subparagraph b), would accordingly have to remain out of consideration in implementing the Directive.

Finally the possibility of the recovery of profits or the payment of damages without fault, as presented in Article 13 paragraph 2 of the Directive, is rejected by us and by the GRUR Technical Committee for Patent Law as well.

**Criticism of the current situation**

The currently existing alternatives for calculating the damages are in our opinion insufficient.

The own lost profits are unverifiable, at any rate in normal cases where apart from the parties additional competitors are present on the market. This method of calculation is therefore hardly to be applied.

The simple license analogy at best places the infringer on an equal footing with the honest licensee17, which is unsatisfactory. At the same time the – for the just mentioned reasons hardly comprehensible – impression is left that the concrete prejudice, namely the own lost profit, must still be higher. This conclusion in particular has its roots in that normally a fee rate is agreed as royalty, which accounts for part of the expected profit only.

---

17 In structural terms unconsidered remain e.g. risks of litigation, the pre-financing of legal costs, insolvency risks, etc.
The method of calculating the recovery of the infringer’s profit finally entails practical difficulties to a considerable extent – even if a clarification of the numerous still open individual questions by judicial decisions is taken for granted. After all, the juridically relevant infringer’s profit must be determined by application of rules, which often do not coincide with the business administration rules in general and with the type of cost accounting of the respective infringer in particular. If, for instance, the infringer operates his business by way of the so-called full cost calculation which is based on surcharges, and perhaps fails to separately record the labour costs accrued in manufacturing the infringing products, but prefers to estimate these costs and to distribute the total amount of labour expenses accrued in the course of production among the individual products on a proportionate basis, this does not mean that these costs would not be deductible – as in the end the form of bookkeeping cannot be decisive for an adequate amount of damages. In such a situation, however, a certain degree of clarity can only be accomplished by means of a complex and elaborate expert opinion.

Therefore the existing alternatives for calculation of damages, as far as they are relevant in practice, are in conclusion either too unimportant, or too complex.

**Remedy through lump sum calculation of damages in the form of a principally increased royalty rate**

a) A self-evident remedial option implies the introduction of a lump sum calculation of damages in the form of a principally increased royalty. The mark-up rate should on the one hand be geared to a realistic assessment of the prejudice typically suffered by a holder of property rights, and on the other hand be guided by the customary infringer’s profits with due consideration for financial resources contributed to the real overhead costs. The increased royalty should accordingly not – or at least not primarily – serve for punishment, but above all should bring about an appropriate compensation for damage, covering all disadvantages typically suffered by the patent holder due to the license actually obtained by force, in particular also the interference with the economic freedom of disposition of the patent holder and the general costs for legal prosecution, unless these costs are anyway to be refunded. At the same time the increased royalty should lead to a situation where the calculation of damages can again be handled by the courts, which normally will be able to decide without any expert opinion, and that the infringed party – which is likely to be even more important – will thus obtain a compensation for damage on an expedited basis. To this end, it appears that principally 1.5 times a regular royalty rate would be appropriate and is apparently also regarded as a proper payment by a majority of the professional groups involved. A conceivable, albeit surely controversial option would however also be a double to triple royalty.

In order to also do justice to special cases despite consolidation into a lump sum, the following additional regulations should be implemented:

On the one hand, the increased license analogy should replace the simple type of computation, however parallel to the further methods of calculating the damages, so as to also do justice to cases with particularly high amounts of prejudice.

On the other hand, it should be considered that under the German system the compensation for damages is on principle only payable where the infringer is at fault. In order to appropriately take into consideration the various degrees of fault, i.e. slight degree of negligence, negligence and intent, regardless of the lump sum approach, the 1.5 times royalty rate should be reduced to the simple rate in case of a slight degree of negligence, but increased to a double royalty in case of intent.

Cases of slight negligence are for instance likely to exist, if the infringer of a patent has arranged for a systematic supervision and – if necessary – for detailed examination of possibly relevant property rights, and prior to commencement of the acts of infringement.
has procured a seriously meant expert opinion in particular dealing with the finally infringed patent, wherein an infringement is at least regarded as unlikely. The existence of such an exceptional situation should have to be demonstrated and proved by the infringer.

b) Said approach is for the moment in accord with the Directive and could be considered by the legislator within the scope of its implementation:

Article 13 paragraph 1 subparagraph (b) presents the possibility to introduce an increased royalty, without substantiating this procedure with a penal character imposed. The first aforementioned option is reflected by the wording “at least”, while the latter statement can be inferred from the following text passage contained in item 26 of the whereas-clauses:

“... The aim is not to introduce an obligation to provide for punitive damages, but to allow for compensation based on objective criterion while taking account of the expenses incurred by the rightholder, such as the costs of identification and research.”

Actually, the draft of the Commission KOM(2003) 46 still covered under the then Article 17 the following regulation:

“... damages in a double amount of the royalty or fee, which the infringer would have been committed to pay, if he had obtained the permit to use the intangible property right concerned,...”

which was deleted in the course of the law-making procedure. Said deletion, however, was not intended to exclude a double royalty, but was merely supposed to leave the upper limit open. Accordingly, the formulation “at least” was selected.

c) A limitation to 1.5 to 2 times the amount of the fair and usual royalty appears to be appropriate. This upper limit is likely to be qualified as the best possible compromise in the light of the broad spectrum of opinion existing in Germany, which for instance appears in the GRUR committees or on the occasion of lectures and discussion meetings. At the same time a royalty assessed in such a way is likely to range in the amount of a realistically estimated concrete damage, respectively mount up to the effectively realized infringer’s profit – once anticipating a certain restriction of the infringer’s profit to be expected on the grounds of adjudication.

The alternative resting with the infringer, namely to also claim the own lost profits respectively recovery of the infringer’s profit, shall guarantee that a fair and equitable result will be found in extreme cases, for instance in case of products with an unusually high profit margin or in cases of counterfeit trademarks. On the other hand, the holder of property rights is upon determination of an appropriate compensation for damage not inevitably referred to the complex method of calculating the infringer’s profit.

If moreover the method of calculating the infringer’s profit – as must be expected – is in judicial decisions corrected downwards vis-à-vis a number of currently asserted claims, the holder of a property right will also consider it attractive to select the increased license analogy as a more simple method of calculation as compared to the determination of the infringer’s profit, so as to be able to avoid complex computation processes. If it turns out here that the awarded infringer’s profits regularly exceed 1.5 times the amount of the royalty, the lump sum allowance for calculation of damages can be adjusted accordingly.

18 See in general Dreier, GRUR Int. 2004, 706, 707.
Conclusion

The introduction of an increased royalty instead of the previously applied simple license analogy appears to be desirable and a helpful instrument in practice. Penal considerations are, however, not – or at any rate not primarily – required for that purpose and are furthermore afflicted with problems in the German system.

Summary

We come out against the introduction of punitive damages. Nonetheless we consider it desirable that the infringed party shall in regular cases be awarded an increased, in particular 1.5 to 2 times the regular royalty rate as lump sum compensation for damages. Our approach is however not based on penal reflections, all the more so as an increased royalty is also not implicitly likely to exceed the infringer’s profit – which is awarded already now. Instead, we regard an increased royalty rate as appropriate lump sum compensation. This applies in particular, if the general rate amounts to 1.5 times the regular royalty rate, but is reduced to the regular royalty rate in case of only a slight degree of negligence, respectively is increased to a double royalty in case of intent.