



Study Question

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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.

The following is an English version of article 338-L of the Portuguese Code of Industrial Property (hereinafter "IPC"):

- "1. Whoever illegally violates the industrial property rights of another person, be it with criminal intent or by mere blame, must pay compensation to the injured party for the damages resulting from the violation.
2. In determining the amount of compensation for losses and damages, the court shall take into account, in particular, the profit obtained by the violator and the resulting damages and lost profits suffered by the injured party. It shall also take into consideration the costs borne with the protection of the right in question and the investigation of the harmful conduct.
3. In calculating the compensation to be paid to the injured party, the revenue resulting from the violator's unlawful conduct shall be taken into account.
4. The court shall also take the moral damages caused by the violator's conduct into account.
5. If, under the preceding paragraphs, it is impossible to quantify the losses effectively suffered by the injured party, the court may, provided this is not opposed by the injured party, alternatively define a fixed amount with recourse to equity, that is based, as a minimum value, on the remuneration that the injured party would have received if the violator had requested authorization to use the industrial property rights in question and the costs borne with the protection of the industrial property rights and the investigation and termination of the harmful conduct.
6. When, in relation to the injured party, the violator's conduct constitutes a repeated practice or proves to be particularly grievous, the court may determine the compensation due with recourse to the accumulation of all or some of the aspects provided for in paragraphs 2. to 5.
7. In any case, the court shall fix a reasonable amount aimed at covering the duly documented costs borne by the injured party in

investigating and bringing to an end the violation of its rights.”

“Mutatis mutandis”, the same rules and methods apply to Copyrights (article 211 of the Copyrights and Connected Rights Code – “CCRC”).

As to sub-paragraph a) of the present Question, the quantification of the loss of profits corresponds to the amount of a surrender of profits made by the infringer.

As to sub-paragraph b), the level of profit margin to be taken into account is based on the average profit, during the infringement period.

“Profit” means the net profit to be fixed by deducting from the sales price, not only the manufacturing costs and expenses, but also the costs, taxes and duties directly related to the marketing and sale of the goods in question.

It seems interesting to point out that n° 2 of article 338-L of our IPC provides that the Court must start by considering, “in particular”, the amount of the profits made by the infringer, while n° 1(a) of article 13 of the “Enforcement Directive”(2004/48/EC) seems to prefer a prior estimation of the damages “ which the injured party has suffered”.

Our article 338-L, on the other hand, opens another sub-paragraph (n° 3) to clarify that “the amount of the income resulting from the illicit behavior of the infringer” is also to be considered, as a possible and slightly “punitive” alternative, “in the calculation of the indemnification”.

Though “punitive damages” are not specifically accepted in our Code, n° 6 of said article clearly establishes the possibility of a severe combination of methods in order to quantify monetary relief (see our replies 10) and 17),below).

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?**

Quantifying a “reasonable royalty” is an hypothetical exercise (“fictio iuris”) based on information available in the relevant sector and on the advice of expert witnesses, particularly taking into consideration the following factors:

- trademark renown and prestige or patent and design quality;
- royalties foreseen in previous licenses granted by the rights holder;
- usual terms under similar circumstances;

Following methods apply to estimate a “reasonable royalty”:

- a) The royalty base shall rely on license agreements that may be taken as “relevant comparables”.
- b) “Relevant comparables” are licenses granted by similar rights holders under analogous circumstances. In other words: the terms generally used in license agreements, to be duly selected in the respective industrial or commercial sector.
- c) In our opinion, in the absence of relevant comparables, no reasonable royalty may be quantified. According to Portuguese practice, the Judge will define a fixed amount with recourse to equity.
- d) The Judge has powers on the nature of the royalty to be fixed (lump sum, percentage of revenues or percentage of profits, a certain amount by unit sold, etc.)

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.**

Accounting methods based on duly approved balance sheets and supporting documents are normally used to quantify the infringer’s profits:

- a) The final amount of the profits is set by duly qualified auditors and may coincide with the amount previously accepted by the infringer, or not.

“Profits” means “net profits”, as defined in our reply to Question 1, above; and it must be stressed that the burden of proving the amount of all

the costs and expenses to be deducted belongs to the infringer.

b) The level of profit margin to be taken into account corresponds, in practice, to the natural tendency of the Judge to find an equitable balance between the global amount of the income resulting from the infringement and the amount of the damages claimed by the rights holder.

The gravity of the infringer's behavior (negligence or intentional conduct, good faith or bad faith) is particularly relevant to evaluate any moral damages (Vd. sub-paragraph 4. of article 338-L).

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

In what concerns the particular cases referred to in sub-paragraphs a) b), c) and d) of the present Question, it is essential to consider them as really rare and exceptional situations. Thus, there is no case law or even any doctrine to be followed.

Consequently, in order to quantify damages or reasonable royalties in such situations, a Portuguese Court would decide on a case by case basis, having in mind any of the above referred applicable provisions of the IPC and general principles of civil law.

Again, the complexity of the matter in such exceptional cases would recommend resorting to the opinion of expert witnesses.

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 answer 4A

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 answer 4A

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 answer 4A

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?

All the rules and methods addressed in our answers to Questions 1) to 4), above, are perfectly applicable to any injured party, either rights holder or licensee.

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

All kinds and types of evidence foreseen in general procedural law may be used in IP litigation.

The excellence of expert witnesses and expert accounting evidence has been formally acknowledged in the Lisbon Court of Appeals decision of May 17, 2016 (Proc. 21567/11.2T2SNT.L1).

The Judge has freedom to access the quality of the evidence submitted by the parties and also to order additional inquiries. Measures aiming at obtaining or protecting evidence (collecting information, apprehension of goods or documents, including bank accounts, preliminary measures, etc.) are specifically dealt with by articles 338-A and following of our IPC.

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

Please see answer 6A

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

Please see answer 6A

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

Portuguese law does not foresee any “discovery procedure”, but all other mechanisms of procedural law are available to assist any of the parties in court to prove (a) the amount of actual profits or losses or (b) in alternative, hypothetically “reasonable royalties”.

We have already emphasized the amplitude of the powers of the Judge, in implementing the specific regulations set forth in our IPC.

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

In our opinion, the quantification of damages for indirect/contributory infringement does not differ from the quantification of damages for direct infringement, though it may be less difficult in the latter case.

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

a) if an injunction has also been granted

Please explain your answer

If an injunction has also been granted, damages of any kind, including “forward looking damages”, may follow, as a natural consequence thereof.

In fact, only a supplementary Court decision can fix the payment of either “past” or “forward” damages, as a result of a final injunction.

We are obviously speaking of “definitive” injunctions, those “whereby one is required to do or to refrain from doing a specified act”, just to use the words of a generally acceptable definition.

A preliminary injunction is not always necessary and, as a non-definitive decision, it does not rule on the validity of an IP right and on the alleged infringement: and without infringement of a valid right, there are no legal grounds to fix any damages.

In conclusion, forward-looking damages are legally possible, but only if a final injunction has also been granted.

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?

Bad faith" is duly considered in the assessment of damages. There is no legal definition of "bad faith". It is a general and abstract concept, to be applied by the Judge on a case by case basis.

In general, it corresponds to the opposite of behaving like a decent citizen, the so called "*bonus pater familias*".

Nevertheless, based on the opinion of a few Iberian specialists (vd., among others, Carlos Fernandez-Nóvoa, "Tratado sobre Derecho de Marcas", 2nd Edition, p. 639, and Prof. Pedro Sousa e Silva, "Direito Industrial- Noções fundamentais", 2011, p. 219), we think that a clear link exists between "bad faith" and a particularly "serious " infringement, as shown by the knowledge of the use of prior rights and the notorious intention of causing damages to their owner or taking advantage from his clientele.

In short: "bad faith", according to Portuguese law and practice, means a "disloyal behaviour and dishonest intention". As in our neighbor, Spain, and in other European countries, "bad faith", in general, "covers, among other things, a real or implicit fraud or an intention to confuse and deceive any third parties or any other wrong purpose".

Since "bad faith" is always "intentional", it logically implies that an "in good faith" infringement is also possible, namely, in case of mere negligence.

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 time between the date of the infringement and the date of the award of damages is duly taken into account by means of adding the amount of legal interest to the amount of the indemnification. However, according to our Civil Procedure Code, interest only applies, as from the date of the summons (i. e. from the date when the infringer is duly called to reply, in Court).

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

12

Are there aspects of these laws that could be improved?

We would welcome the following improvements:

- a "de minis" indemnification of 1% on the total volume of sales of the infringer;
- objective liability, in certain cases, as suggested in n.º 21) hereunder.

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?

Yes

Please Explain

The Court's assessment of an hypothetical negotiation of a "reasonable royalty" must proceed under the presumption that all the IP rights in suit are valid and were infringed.

First of all, a general presumption of validity already arises from article 4, 2. of our IPC. But, in any case, it makes no sense to use the amount of any "reasonable royalties" to estimate a compensation for certain damages, without firstly proving a prior infringement of existing and valid rights.

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?

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?

Overridden by our reply to sub-paragraph c) of Question n° 2, above.

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?

See our reply to Question n° 9.

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

harmonization is obviously desirable, as explained herein.

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

Following basic principles should always be observed:

- I. Infringer must surrender his illicit profits to indemnify the rights holder for his loss of profits.
- II. Damages, including equitable moral damages, as well as costs and expenses in connection with relief, must always be considered as a minimum level for any indemnification to be fixed.
- III. The amount of royalties, as a "fictio iuris", may be an equitable alternative to be adopted, if necessary.
- IV. The "punitive" aggregation of different methods and standards should only be used in exceptional cases of bad faith or reiteration.

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

In quantifying "reasonable royalties", the following principles must be complied with:

- a) As a necessary "fictio iuris", the estimation of "reasonable royalties" must be based on an hypothetical negotiation, which only makes sense, if the rights to be hypothetically licensed are valid and were actually infringed: otherwise, it apparently makes no sense to discuss any reasonable royalties.
- b) Reliable licensing practices and going rates, as "relevant comparables", must normally be used by expert witnesses to assist the Judge in fixing "reasonable royalties", when necessary.
- c) Same method and same "relevant comparables" shall be considered "vis à vis" any third parties' rights, providing these are similar to the IP rights in suit.

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;

Please see answer 18

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

Please see answer 18

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

Please see answer 18

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

Regarding actual loss and reasonable royalties and according to Portuguese law and our practice, there is no point in applying a special regime:

- a) on conveyed goods;
- b) on competing goods of the right holder;
- c) or when the infringing product forms part of a larger assembly.

To separate the respective damages and establish the necessary connections, the general principle of adequate causality can usefully be applied to the different goods or products in concern.

Notwithstanding, it is difficult for us to understand, in sub-paragraph b), how competing goods of the rights holder "not making use of the patent should be dealt with". Apparently, such competing goods have no direct connection with the subject case, because they are not made under the infringed right. On the other hand, the impact of their sales is not directly caused by the infringer.

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

Please see answer 19A

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

Please see answer 19A

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 the exceptional cases where there is no direct infringement of IP rights in suit, but the Court still has to decide on indirect contributory damages, quantification thereof must follow similar principles, analogically applying the provisions of article 338-L of the IPC and article 211 of the CCRC (also see our replies to questions 17 and 18, above).

In fact, indirect/contributory infringement is foreseen in article 335 of said Code, as an intentional behavior (importing, manufacturing, acquiring something, as in preparation of infringing activities). Consequently, the contributory infringer's liability is legally independent from the main infringer's position.

So, the indirect contributor may exceptionally be liable, in certain cases where the main infringer is not in suit, but always under the same rules and general principles.

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

Quantification of monetary relief regarding the infringement of IP rights is subject to a clearly more flexible regime than the general regime of civil liability adopted by our Civil Code.

In fact, article 338-L of IPC and 211.^o of CCRC offers a rich combination of applicable quantification methods, with the main purpose of supporting fair and equitable decisions.

However, such flexibility does not harmonize with the "rigidity" of n^o1 of same article, which requires the traditional subjective liability of the infringer - whose acts must be intentional or, at least, negligent, to justify his obligation to pay the required indemnification.

Thus, if you agree that the spirit of flexibility, in this article, should prevail, its sub-paragraph n^o1 would need to be reworded, so that a few cases of objective liability could be inserted therein. Such possibility seems quite natural, if you consider that the infringement of IP rights is often connected with unfair competition. Moreover, the mere possibility of unfair competition is often relevant, under an objectively legal point of view.

Henceforth, the door is quite open to establish a clear list of specific cases of "objective" liability, even resulting from a mere possibility of infringing IP rights (Vd. Carlos Olavo, "Propriedade Industrial", Vol. I, 2005, p. 297).

As a matter of fact, objectively speaking, in exceptional cases, even in good faith, even without negligence, the infringement of IP rights is so serious that it should not be exempt from any liability, at least in a limited number of case.

For instance: when a famous trademark is "simply ignored", there is no excuse, because a "professional" infringer has no reasonable grounds to justify his ignorance.

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

Please enter the name of your nominee for Study Committee representative for this Question (see Rule 12.8, Regulations of AIPPI). Study Committee leadership is chosen from amongst the nominated Study Committee representatives. Thus, persons not nominated as a Study Committee representative cannot be in the Study Committee leadership.
JOÃO VEIGA GOMES