

Compensation of Prejudice for Infringements of Intellectual Property Rights in France, under the Directive 2004/48/EC and Its Transposition Law : New Notions?

BENHAMOU, Yaniv

---

Reference

BENHAMOU, Yaniv. Compensation of Prejudice for Infringements of Intellectual Property Rights in France, under the Directive 2004/48/EC and Its Transposition Law : New Notions? *International Review of Intellectual Property and Competition Law (IIC)*, 2009, no. 2, p. 125ss.

Available at:

<http://archive-ouverte.unige.ch/unige:75590>

Disclaimer: layout of this document may differ from the published version.



UNIVERSITÉ  
DE GENÈVE

## Articles

Yaniv Benhamou\*

### Compensation of Damages for Infringements of Intellectual Property Rights in France, Under Directive 2004/48/EC and Its Transposition Law – New Notions? \*\*

- I. Introduction
- II. Requirement of Fault
  1. Under the Directive
  2. Under the *loi contrefaçon*
- III. Requirement of Prejudice
  1. Under the Directive
  2. Under the *loi contrefaçon*
- IV. Methods for Assessing Damages
  1. Assessment Method 1: Negative Economic Consequences, Infringer's Profits, Moral Prejudice
    - a) Negative Economic Consequences
    - b) Profits Made by the Infringer
    - c) Moral Prejudice
  2. Assessment Method 2: Lump Sum
    - a) In General
    - b) "As an Alternative"
    - c) "At the Request of the Injured Party"
    - d) Strict Application of the Principles of Civil Liability
    - e) Departure from the Strict Framework of Civil Liability
    - f) Conclusion
- V. Conclusion

#### I. Introduction

Today, infringements of intellectual property rights are becoming more widespread than ever, facilitated by the globalisation of economies and the new digital environment. Faced with such infringements, victims can, under French law, seek criminal sanctions and various civil sanctions such as the

\* Lic. iur.; Ph.D. Candidate; Research assistant at the University of Zurich.

\*\* This paper was mainly written during a research stay as a visiting scholar at the Max Planck Institute for Intellectual Property, Competition and Tax Law. The author would sincerely like to thank Eleanor Grant for her help with the translation and Olivier Untermaier for his comments on earlier drafts.

confiscation of the infringing goods, their destruction, publication of the condemning decision, injunctive relief and damages.

Traditionally, damages are governed by the law of tort, more specifically by Arts. 1382 and 1383 of the French Civil Code which requires the existence of fault, prejudice<sup>1</sup> and a causal link between fault and prejudice. In general, fault is automatically found where there is an infringement of intellectual property rights, as such an infringement is considered to be a civil wrong. Damage is more difficult to analyse as it is governed by the principle of *réparation intégrale*, according to which the strict equivalence between the prejudice and the compensation must be respected, and damages must be evaluated with reference to the victim only and not to the infringer. To avoid difficulties in calculating the damage, modern case law often departs from this principle by making it easier to prove prejudice or by increasing the amount of damages awarded. This case law is not sanctioned by the French Supreme Court (*Cour de cassation*), as the assessment of prejudice is a question of fact which is decided upon definitively by the court dealing with the substance of the case (*juge du fond*). The predominant academic opinion supports this case law, putting forward various different justifications for it.

The “*loi n° 2007-1544 du 29 octobre 2007 de lutte contre la contrefaçon*” (hereafter: “*loi contrefaçon*”),<sup>2</sup> which transposes, with delay, the Directive 2004/48/EC<sup>3</sup> (hereafter: “the Directive”) and which entered into force on 31 October 2007, introduces new provisions on the evaluation of the prejudice suffered into the “*Code de la propriété intellectuelle*” (hereafter: “CPI”). Firstly, the law invites the courts to continue to compensate for damage according to the law on civil liability by stipulating that infringements of intellectual property rights, with the exception of copyrights, “engage the infringer’s civil liability”.<sup>4</sup> The law then introduces two ways of calculating damages which are new to French law. In accordance with Art. 13(1)(a) and (b) of the Directive, the law stipulates that “to assess damages, the court shall take into account the negative economic consequences, including lost profits, which the injured party has suffered, the

1 The terms “damage” and “prejudice” are both used in academic writing and appear to be equivalent, see Y. CHARTIER, “La réparation du préjudice” 1 (Paris 1996).

2 Published in the French OJ No. 252, 30 October 2007, at 17775. For a general presentation of the law, see T. AZZI, “La loi du 29 octobre 2007 de lutte contre la contrefaçon”, 2008 Recueil Dalloz No. 11, at 700 *et seq.*; C. CARON, “La loi du 29 octobre 2007 dite ‘de lutte contre la contrefaçon’”, JCP éd. E., 22 November 2007, at 9 *et seq.*; C. DERAMBURE, “Premiers commentaires sur la ‘loi contrefaçon’ du 29 octobre 2007”, Revue Lamy droit de l’immatériel No. 32, at 67 *et seq.*; J. CASTELAIN & N. REBBOT, “La loi de lutte contre la contrefaçon: première lecture”, Légipresse, No. 247, December 2007, at 167 *et seq.*

3 Published in the OJ L 157/45/2004, corrected version in OJ L 195/16/2004.

4 This provision already existed for patents (Art. L. 615-1 CPI), new varieties of plants (Art. L. 623-25 CPI) and trademarks (Art. L. 716-1 CPI). In the new law, it was also introduced for Community (Art. L. 515-1 CPI) and national designs (Art. L. 521-1 CPI), semiconductor products (Art. L. 622-5 CPI) and geographical indications (Art. L. 722-1 CPI).

unfair profits made by the infringer and the moral prejudice caused to the rightholder by the infringement. However, the courts can, as an alternative and at the request of the injured party, award, by way of damages, a lump sum of no less than the royalties that would have been due if the infringer had requested authorisation to use the intellectual property right that he infringed".<sup>5</sup> These methods seem to depart from the classic rules on civil liability, or at least require a flexible application of these rules, by designating the infringer as an element to be taken into account when assessing damage and by guaranteeing payment of royalties as the minimum amount of compensation.

The courts will have to set damages in accordance with this new law while also bearing in mind the Directive, its objectives and its interpretation by the ECJ.<sup>6</sup> The Directive's objective is to approximate the national legislative systems so as to ensure a high, equivalent and homogenous level of protection in the internal market (Recital 10) and to fight against counterfeiting and piracy.<sup>7</sup> The Directive also serves as a minimum level of harmonisation as the Member States can adopt additional national legislation as long as it is more favourable to rightholders, does not prejudice the provisions of the Directive (Art. 2(1)) and is in conformity with the Directive's objective.<sup>8</sup>

This contribution aims to give a clear account of claims for compensation of prejudice for infringements of intellectual property rights in France, with particular reference to the *loi contrefaçon*. It will first analyse the requirements for a claim for damages under the Directive and the *loi contrefaçon*, looking at fault (II) and prejudice (III), as the causal link is not widely discussed in academic writing. Secondly, a detailed analysis of the two assessment methods will serve to facilitate the understanding of what impact they will have on the courts' practice (IV). Other compensatory measures, such as the reimbursement of court costs and measures on publicity will not be discussed in this paper.<sup>9</sup>

5 Art. L. 331-1-3 CPI for copyright; Art. L. 521-7 CPI for designs; Art. L. 615-7 for patents; Art. L. 622-7 for semiconductor products; Art. L. 623-28-1 CPI for new plant variety certificates; Art. L. 716-14 CPI for trademarks; Art. L. 722-6 CPI for geographical indications.

6 European Court of Justice, 10 April 1984, Case 14/83, *Sabine von Colson and Elisabeth Kamann v. Land Nordrhein-Westfalen*, 1984 European Court Reports 1891, the national court is required to "interpret its national law in the light of the wording and the purpose of the directive in order to achieve the result referred to".

7 A. KUR, "The Enforcement Directive – Rough Start, Happy Landing?", 35 IIC 821 *et seq.*, 826 (2004); C.-H. MASSA & A. STROWEL, "La proposition de directive sur le respect des droits de propriété intellectuelle: déchirée entre le désir d'harmoniser les sanctions et le besoin de combattre la piraterie", Communication – Commerce électronique February 2004, at 9.

8 C. ZOLYNSKI, "Méthode de transposition des directives communautaires, Etude à partir de l'exemple du droit d'auteur et des droits voisins", notes 208–209 (Thesis, Paris 2007).

9 For reimbursement of court costs, *see, e.g.*, I. LEROUX & F. BOURGUET, "Litiges de contrefaçon de brevets: une étude comparative des systèmes juridiques", note 31 (Paris (Contd. on page 128))

## II. Requirement of Fault

### 1. Under the Directive

In the Directive, damages are dealt with in Art. 13 which distinguishes between two different possible scenarios. According to Art. 13(1), where the infringer acts “knowingly, or with reasonable grounds to know”, damages should be appropriate to the actual prejudice and can be fixed by using one of two calculation methods. The first of these scenarios is compulsory, i.e. Member States must implement such a rule, and works on the assumption that the infringer acted with a certain degree of knowledge of the infringing nature of his activity. The infringer acted “knowingly” as he was aware that he was using a right belonging to a third party (actual knowledge) and “with reasonable grounds to know” as he ought to have known but did not, i.e. because he had not taken the necessary precautions to avoid committing an infringement (reasonable knowledge).<sup>10</sup> The duty to take precautions is to be defined by the Member States. The notion of *knowledge* does not necessarily tie in with the notion of the civil wrong found in numerous national legislations;<sup>11</sup> however, it does seem to be wide enough to apprehend a maximum of behaviour and cover all degrees of civil wrong.

According to Art. 13(2), where the infringer did “not knowingly, or with reasonable grounds to know” engage in infringing activity, Member States can order the recovery of profits or the payment of damages which may be pre-established. This second scenario is optional, i.e. Member States are free to decide whether to implement such a measure or not, and works on the assumption that the infringer was unaware of the existence of the right and the contentious nature of his actions.

### 2. Under the *loi contrefaçon*

The *loi contrefaçon* only accepted the first scenario set out in Art. 13(1) of the Directive,<sup>12</sup> using the calculation methods of this scenario and referring to the general rules of civil liability for the rest. In conformity with the general rules of civil liability, *fault* on the part of the author is

(Contd. from page 127)

2006). For measures of publicity, see, e.g., P. DE CANDÉ, “Projet de loi transposant la directive 2004/48/CE du 29 avril 2004 relative au respect des droits de propriété intellectuelle”, *Propri. Intell.*, April 2007, at 156 *et seq.*, 165; Supreme Court, 5 December 1989, No. 87-15.309, *Berault v. Dudognon et al.*, 1989 *Bulletin Civil IV*, No. 307.

- 10 L. BRÜNING-PETIT, “La Directive européenne du 29 avril 2004: quel impact sur le contentieux français de la contrefaçon de brevet?” 341 *et seq.*, 350; C.-H. MASSA & A. STROWEL, at 14, who use the term “constructed knowledge”.
- 11 C. GOZZI, “Deliktsrechtliche und bereicherungsrechtliche Ansprüche aus der Verletzung Rechten des gewerblichen Eigentums nach dem italienischen Codice della proprietà industriale – Die Umsetzung des Art. 13 der RL 2004/48/EG zur Durchsetzung der Rechte des geistigen Eigentums”, 2008 *GRUR Int.* 31 *et seq.*, 32; C.-H. MASSA & A. STROWEL, at 14.
- 12 J. SCHMIDT-SZALEWSKI, “La détermination des conséquences civiles de la contrefaçon selon le projet de la loi de lutte contre la contrefaçon”, *Propri. Ind.* No. 11, November 2007, at 9 *et seq.*, 10, note 13.

required.<sup>13</sup> The fault may be intentional (*responsabilité délictuelle*, Art. 1382 Civil Code) or be due simply to carelessness or negligence (*responsabilité quasi-délictuelle*, Art. 1383 Civil Code). Intentional fault works on the assumption that the infringer was aware of the existence of the intellectual property right and of the unlawful nature of using it. Non-intentional fault is characterised by the carelessness or negligence of the infringer, who ought to have taken the necessary precautions, such as undertaking prior research, to avoid interfering with the right. As such, the *loi contrefaçon* illustrates the willingness to continue to treat an infringer who is aware of what he is doing and a simply negligent infringer in the same way.<sup>14</sup> In addition, fault used in French law corresponds to the notion of knowledge in Art. 13(1): someone who does not know that his activity violates the right of another but had not taken the necessary precautions required of him (was therefore negligent, i.e. had reasonable grounds to know) will be treated in the same way as someone who is actually aware of the situation (acted intentionally, i.e. knowingly).

However, in practice, the requirement of fault is of little importance as the courts generally automatically accept the author's civil liability where there is an infringement of intellectual property rights without looking at the presence of fault. The indifference of fault is even more apparent in relation to industrial property than copyright. With regard to industrial property rights, the case law and the predominant academic opinion do not consider it necessary to demonstrate fault on the part of the infringer in a claim for damages as an infringement of such rights is treated as a civil wrong (*faute civile délictuelle*). Such reasoning stems directly from the text of the law which provides that "infringements of intellectual property rights engage the infringer's civil liability".<sup>15</sup> In addition, the defendant's activity is considered infringing per se, while taking into account the degree of knowledge in the profession and the duty of verification that can be expected in this type of activity.<sup>16</sup>

13 A. LUCAS & H.-J. LUCAS, "Traité de la propriété littéraire et artistique" 684, note 979 (3rd ed., 2006); T. AZZI, "Les relations entre la responsabilité civile délictuelle et les droits subjectifs", 2007 RTD Civ. 227 *et seq.*, note 26.

14 P. DE CANDÉ, *supra* note 9, at 164.

15 See J.-C. GALLOUX, "Droit de la propriété industrielle", 2000 Dalloz 174, note 502: "an infringement of intellectual property rights being a fault that engages the civil liability of the author"; F. SIIRIAINIEN, "Propriété intellectuelle, préjudice et droit économique", in: "Le droit au défi de l'économie" 91 *et seq.*, 94 (Paris 2002), "demonstrating a fault on the infringer's part other than the act of infringement is not necessary for a civil liability action for infringement".

16 With regard to patents, the law reserves favourable treatment for an infringer in good faith, as Art. 615-1 para. 3 stipulates that acts done by third parties other than the manufacturer or importer do not constitute an infringement unless they were done in full knowledge of the facts, i.e. knowledge of the infringing nature of the aims pursued. J. SCHMIDT-SZALEWSKI & J.-L. PIERRE, "Droit de la propriété industrielle", notes 159-162 (3rd ed., Paris 2003); I. LEROUX & F. BOURGUET, *op. cit.*, at 89-90.

With regard to copyright, the law does not include any provisions equivalent to those applicable to industrial property, which should discourage the courts from automatically engaging civil liability for infringements of rights and reinforce the requirement of fault. However, the *Cour de cassation* considers the infringer to be liable for compensation regardless of the existence of any fault.<sup>17</sup> This case law is criticised by the majority of specialists on copyright law because it leads to systematic sanctioning where slight differences in the cases should be taken into account.<sup>18</sup> The lower courts (*juges du fond*) accept a kind of presumption of fault on the part of the person who committed the material act of infringement<sup>19</sup> or the professional (editor, importer, distributor, advertising agency, advertiser) who contributed to the harmful event (*fait dommageable*), e.g. by selling rights that did not belong to him<sup>20</sup> or by helping to make counterfeit goods available to the public.<sup>21</sup> The courts agree to exempt from liability defendants who can prove that they could not have foreseen the harmful event<sup>22</sup> or that they were merely executing an order from the principal infringer.<sup>23</sup> Internet service providers (ISPs) are dealt with in Art. 6.1(2) of the “*loi du 21 juin 2004 pour la confiance dans l'économie numérique*”, which transposes the EU's E-Commerce Directive of 8 June 2000. ISPs can escape liability if they were not actually aware of the unlawful nature of the activities or information they were storing at the request of one of their users or if, as soon as

17 Supreme Court, 1st Civil Division, 10 May 1995, RIDA 4/1995, at 291, 1995 Bulletin civil I, No. 203 (“without having to research the existence of fault once the infringement is established”). Supreme Court, 1st Civil Division, 29 May 2001, *Editions Phoebus v. Adam Shaw et Editions du Seuil*; Supreme Court, 1st Civil Division, 26 June 2001, *Virgin Stores et Fnac v. Friedreich Wilhelm Murnau et al.* (“independent of any fault”).

18 For an indepth look into this subject, see A. LUCAS & H.-J. LUCAS, *op. cit.*, note 979 and the numerous references made therein. See also J. PASSA, “Les divergences dans la définition de l'acte de contrefaçon dans les différentes branches du droit de la propriété intellectuelle. Plaidoyer pour une clarification”, *Propr. Intell.* January 2004, No. 10, at 513 *et seq.*, 520; P.-Y. GAUTIER, “L'indifférence de la bonne foi dans le procès civil pour contrefaçon”, *Propr. Intell.* April 2002, No. 3, at 28 *et seq.* *Contra*, in favour of this evolution, F. POLLAUD-DULIAN, “Le Droit d'Auteur”, 2005 *Economica* note 1332.

19 N. QUOY, “La contrefaçon par reproduction en droit d'auteur français et en droit comparé”, note 702 (Paris 1998).

20 Paris Court of Appeal, 13th Division, 2 April 1999, *Juris-Data* No. 023271; Paris District Court, 24 June 1997, RIDA 4/1997, at 271.

21 Paris Court of Appeal, 4th Division, 13 November 1969, RIDA 2/1970, at 145; Paris Court of Appeal, 1st Division, 23 October 1990, 1991 *JurisClasseur Périodique* éd. Générale (JCP II) 21682, note by LUCAS.

22 See, e.g., Paris Court of Appeal, 4th Division, 17 May 1975, 1977 *Gaz. Pal.* 1, 15; Paris District Court, 3rd Division, 21 March 1986, 1987 *Dalloz. somm.* 157, note by COLOMBET; Paris District Court, 3rd Division, 11 February 1988, *Cah. dr. auteur*, October 1988, at 17; Paris Court of Appeal, 4th Division, 23 September 1998, *Juris-Data* No. 024306.

23 Supreme Court, 1st Civil Division, 20 May 1980, *Bulletin civil I*, No. 154; Paris Court of Appeal, 4th Division, 28 September 2001, 2002 *Gaz. Pal. somm.* 1, at 902.

they became aware, they promptly removed the information or made accessing it impossible.<sup>24</sup>

The courts' indifference towards the requirement of fault shows a certain detachment from the classic principles of French tort law, or even an objective responsibility<sup>25</sup> which clearly contradicts Art. 13(1). This serves to confuse the responsibility laid down in Art. 13(1) with that in Art. 13(2) which is independent of the notion of fault. Some courts could nevertheless argue that this approach would be more favourable to the rightholder as he would not have to examine the infringer's conscience, and therefore be in conformity with the Directive (Art. 2(1)). In relation to industrial property, the courts could even argue that this approach results from the text of the *loi contrefaçon* which refers directly to the author's "civil liability". However, such an approach would contradict one of the objectives of the Directive set out above, i.e. to approximate national legislation, as it would lead to interpretations differing from one State to another, or even from one jurisdiction to another. As such, in accordance with the Directive and the *loi contrefaçon*, it can be expected that the courts will reaffirm the requirement of fault. This could be presumed in relation to, for example, professionals or a person who committed the material act of infringement but could not be automatically admitted, and an infringer who can prove that he was not at fault ought to be able to refute the presumption.

### III. Requirement of Prejudice

#### 1. Under the Directive

According to Art. 13(1), damages should be "appropriate" to the actual prejudice suffered and not "limited" to it, which implies that they could exceed this amount.<sup>26</sup> In addition, the Directive does not affect any measures that are more favourable to rightholders (Art. 2(1)). The Member States therefore have a margin of discretion when it comes to the assessment of damage and can, if they wish, distance themselves from the strict mechanisms of tort law.<sup>27</sup> However, Recital 26 indicates that the Directive's aim is

24 See however the recent decision of the Paris District Court for Commerce Matters, on 30 June 2008, *LVMH v. eBay*, in which the court decided that eBay was not able to benefit from the status of an ISP and the company was liable for gross negligence for the sale of counterfeit goods on their website. The court considered that 90% of the Louis Vuitton bags and Dior perfumes sold on eBay were counterfeit and awarded damages of €38.6 million (N.B. whereas, on 14 July 2008, *Tiffany Inc. v. eBay Inc.*, the US District Court of New York decided that "eBay cannot be held liable for trademark infringement based solely on their generalized knowledge that trademark infringement might be occurring on their websites", at 66).

25 H. MAZEAUD, "La faute objective et la responsabilité sans faute", 1985 *Dalloz*, chron. 13.

26 T. AZZI, *supra* note 2, at 709, note 35; J.-C. GALLOUX, "Directive relative au respect des droits de propriété intellectuelle", 2004 *RTD com.* 698 *et seq.*, 705; J. PASSA, *op. cit.*, note 440.

27 J.-C. GALLOUX, *supra* note 26, at 706.



compensatory and “not to introduce an obligation to provide for punitive damages”.<sup>28</sup> Awards of damages must also respect the general requirements of being effective, proportionate and dissuasive (Art. 3(2)), as well as the principal objective of the Directive which is to combat counterfeiting and piracy. Finally, the compensation should be determined “in each case in such a manner as to take due account of the specific characteristics of that case, including the specific features of each intellectual property right and, where appropriate, the intentional or unintentional character of the infringement” (Recital 17). The courts must, as such, provide for measures that are graduated and in proportion with the seriousness of the infringement,<sup>29</sup> distinguishing between different types of infringement, for example, distinguishing counterfeiting and piracy from other infringements.

## 2. Under the *loi contrefaçon*

The *loi contrefaçon* does not specify that damages must be “appropriate to the actual prejudice” and a quick reading of the *loi contrefaçon* would lead you to think that the traditional rules of civil liability continue to apply, as infringements “engage the infringer’s civil liability”, a point that the rapporteur picked up on in the preparatory work.<sup>30</sup>

In accordance with Art. 1382 Civil Code,<sup>31</sup> damages are governed by the principle of “*réparation intégrale*” according to which a prejudice suffered must be proved<sup>32</sup> and “all the prejudice and nothing but the prejudice” must be compensated.<sup>33</sup> A strict equivalence between the prejudice and the compensation should be respected and damages should be calculated with reference to the victim only and not the author of the infringement. Prejudice is calculated in accordance with Art. 1149 Civil Code,<sup>34</sup> on the basis of the “loss of profits” and “loss suffered”. Consequently, a company capable of producing 1,000 products in violation of rights held by a company capable

28 P. DE CANDÉ, *op. cit.*, at 165; J. SCHMIDT-SZALEWSKI, *supra* note 12, at 10, who considers that the law does not really change the principles applicable to damages, which remain subject to the rules of tort law, *i.e.* assessed with compensation and not punishment in mind. However it is difficult to know whether this consideration applies to all assessments of damages or if it is only valid for the preceding sentence and therefore only for compensatory royalties, *see* G. HENRY, “L’évaluation du droit d’auteur” 165 (Thesis, Paris 2006).

29 Report of 5 December 2003, A5-0468/2003 final, at 7, 32; Opinion of 2 October 2003 of the Committee on Industry, External Trade, Research and Energy, Justification of Amendment 1, A5-0468/2003 final, at 51.

30 L. BÉTEILLE, “Rapport n° 420, Sénat, 26 juillet 2007” 44; J. SCHMIDT-SZALEWSKI, *supra* note 12, at 10, note 10.

31 “Any act whatsoever, which causes damage to another, obliges the one by whose fault it occurred, to compensate for it”.

32 Paris Court of Appeal, 1st Division, 27 October 1992, RIDA 2/1993, at 229; Paris District Court, 1st Division, 17 February 1999, RIDA 3/1999, at 331.

33 Paris Court of Appeal, 1 July 1986, 1986 PIBD III, at 401, 403.

34 “[D]amages owed to the creditor are, in general, for the loss that he made and for the profit that he was deprived of”.

of producing only 100 authentic products would be dealt with on the basis of 100 products and not 1,000. The award of damages must be neither more nor less than the prejudice suffered<sup>35</sup> and the seriousness of the fault on the part of the infringer has no influence on this amount.<sup>36</sup> Any award of damages exceeding the prejudice suffered (over-compensation), where the extra depends on the seriousness of the infringer's fault, is considered to be a private punishment and punitive damages,<sup>37</sup> the surplus acting like a punitive fine which should not, in principle, be ordered in a civil law action.<sup>38</sup> However, a distinction is sometimes made in academic writing between damages exceeding the prejudice suffered, e.g. calculated according to the profits made by the infringer, and truly punitive damages that depend on the seriousness of the infringer's fault which are not strictly equivalent.<sup>39</sup>

However, the rapporteur also added that the application of the general rules of civil liability is "without prejudice to the specific provisions set out in the Intellectual Property Code".<sup>40</sup> And yet the *loi contrefaçon* goes on to introduce methods of calculating damages that are considered to be very novel in French law and which improve the assessment of damages.<sup>41</sup> Indeed, these methods invite the courts to assess prejudice in a large way<sup>42</sup> or even to depart from the traditional rules of civil liability by designating the infringer as a point of reference in the assessment of the damage and by providing for the payment of royalty fees as a minimum. Whereas before, reference had to be made to the Civil Code, by setting out specific ways of assessing damage, it can now be argued that the notion of damage is no longer that which can be found in the Civil Code but rather that which can be found in the Intellectual Property Code.<sup>43</sup> In other words, it can be argued that the "civil

35 Supreme Court, 19 October 1999, 2000 PIBD III, at 689. In relation to industrial property, see J. SCHMIDT-SZALEWSKI & J.-L. PIERRE, "Droit de la Propriété Industrielle", note 391 (3rd ed., 2003); F. GREFFE & P. GREFFE, "Contrefaçon. Répressions. Peines. Réparations", *Jurisclasseur Marques Dessins et Modèles* fasc. 3490, note 43. In relation to copyright, see F. POLLAUD-DULIAN, *supra* note 18, note 1329.

36 See Supreme Court, 2nd Civil Division, 8 May 1964, 1965 JCP II, at 14140, note by ESMEIN.

37 T. AZZI, *supra* note 13, note 26; MARTINE BÉHAR-TOUCHAIS, "Comment indemniser la victime de la contrefaçon de façon satisfaisante", in: "La contrefaçon: l'entreprise face à la contrefaçon de droits de propriété intellectuelle, Colloque de l'IFPI, Paris 17 déc. 2002" 105 *et seq.*, 120 (Litec, 2003); P. MALINVAUD, "Droit des obligations", note 722 (Litec, 9th ed., 2005); F. TERRÉ, P. SIMLER & Y. LEQUETTE, "Droit civil. Les obligations", note 900 (Dalloz, 8th ed., 2005).

38 J.-P. MARTIN, "La directive européenne du 9 mars 2004 visant au respect des droits de propriété intellectuelle: aboutissement ou point de départ?", *RDPI* June 2004, at 4 *et seq.*, 15.

39 T. AZZI, *supra* note 2, at 710, note 35; F. TERRÉ, P. SIMLER & Y. LEQUETTE, *op. cit.*, note 900.

40 L. BÉTEILLE, *op. cit.*, at 44.

41 L. BÉTEILLE, *op. cit.*, at 9, 30.

42 P. DE CANDÉ, *op. cit.*, at 164. See also L. BÉTEILLE, "Synthèse du rapport n° 420, Sénat, 17 septembre 2007" 3.

43 C. CARON, *supra* note 2, at 14.

liability” targeted here is not exactly the same as the liability in the Civil Code but rather a liability that is specific to intellectual property rights.<sup>44</sup> In addition, these assessment methods correspond to current case law<sup>45</sup> in which the courts appear less and less hesitant to move away from the principles of civil liability, making it easier to prove prejudice or increasing the amount of compensation.

The Directive and the *loi contrefaçon* do not really change the rules applicable to compensation, the assessment of compensation remains non-punitive and compensatory. By taking into account the profit made by the infringer and including a guaranteed lump sum, the Directive and law do however call into question the rules set out above. A detailed analysis of the assessment methods will help to show the impact they will have on the courts’ practice.

#### IV. Methods for Assessing Damages

The law provides for two possible methods for calculating damages, one based on the assessment of prejudice suffered, the other consisting of a lump sum based on royalties.

##### 1. Assessment Method 1: Negative Economic Consequences, Infringer’s Profits, Moral Prejudice

The first method for calculating damages consists of an assessment of “the negative economic consequences, including lost profits, which the injured party has suffered, the unfair profits made by the infringer and the moral prejudice caused to the rightholder by the infringement”.

###### a) Negative Economic Consequences

The concept of negative economic consequences has been used by the French courts for a very long time. It corresponds to what is referred to as commercial prejudice,<sup>46</sup> which is compensated for under the classic rules of civil liability, using the elements of “loss of profits” and “loss suffered” in Art. 1149 Civil Code. In addition to commercial prejudice, modern case law also tends to accept prejudice which is specific to intellectual property law and which results from the infringement of the exclusivity right (*droit privatif*). A type of prejudice peculiar to copyrights exists where there is an infringement of the moral rights of an author of an intellectual work.

###### i) Lost profits

Lost profits (*lucrum cessans*) refers to the profits that the injured party would have made had it not been for the infringement, not to the profits made by the infringer, and is calculated in two stages: firstly, the scale of the infringement, the total infringing sales or the so-called “*masse contrefai-*

44 T. AZZI, *supra* note 2, at 708.

45 C. CARON, *supra* note 2, at 14, note 13.

46 J. SCHMIDT-SZALEWSKI, *supra* note 12, note 18.

sante” is determined; secondly, with the *masse contrefaisante* in mind, the prejudice suffered by the injured party through this infringement is assessed.

The *masse contrefaisante* is the infringer’s turnover, the value or number of counterfeit objects sold by the infringer during the period of infringement.<sup>47</sup> When dealing with trademarks and designs the sometimes secondary role played by such a trademark, compared to the actual object carrying it, in the decision to buy the product should be taken into account.<sup>48</sup> For patents, the specific contribution made by the infringing part to the *masse contrefaisante* should be determined, as the object in question might be entirely (i.e. the patented product has been reproduced) or partially infringing (i.e. only some elements of the object are infringing).<sup>49</sup> It is also necessary to do such a break-down of the *masse contrefaisante* for copyrights where the infringement of the intellectual property right relates to only part of the work.<sup>50</sup> Lastly, the *masse contrefaisante* includes not only the infringing objects themselves but also necessary accessories that are sold with them and which form a single indivisible “commercial whole”.<sup>51</sup>

Once the *masse contrefaisante* has been determined, the prejudice suffered by the rightholder must be assessed. Prejudice is assessed differently depending on whether the rightholder was or was not making use of his right during the period of infringement. If the rightholder was making use of his right, he can claim the loss of profits for the sales he missed out on due to the infringement. The *missed sales* are those that the rightholder would have been able to make instead of the infringer, taking into account his technical and commercial production capacity and the economic conditions (the state of the market, the existence of competitors, substitutability of the products).<sup>52</sup> So, when the rightholder is a small-scale craftsman and the infringer a large manufacturing group, the rightholder would not have been able to achieve the same sales as the infringer. Finding himself in much the same position as a rightholder who is not making use of his right, he can claim royalty fees.<sup>53</sup> Similarly, when counterfeits of luxury goods, which are poor in quality and sold at a much lower price, are made, the prejudice suffered

47 J. SCHMIDT-SZALEWSKI & J.-L. PIERRE, *supra* note 16, note 215.

48 For trademarks, see S. CARVAL, *op. cit.*, note 121. For designs, see F. POLLAUD-DULIAN, “Droit de la propriété industrielle”, note 1024 (Monchrétien, 1999); F. GREFFE & P. GREFFE, *op. cit.*, note 55.

49 F. POLLAUD-DULIAN, *supra* note 48, note 735.

50 A. LUCAS & H.-J. LUCAS, *op. cit.*, note 987; Paris Court of Appeal, 4th Division, 3 December 1987, RIDA 1/1988, at 113.

51 J. SCHMIDT-SZALEWSKI & J.-L. PIERRE, *supra* note 16, note 216; J.-P. STENGER, “Sanctions de la contrefaçon”, 2006 Jurisclasseur fasc. 4680, at 1 *et seq.*, 16, note 102 *et seq.*; see, e.g., Paris Court of Appeal, 4th Division, 6 June 2001, PIDB 730/2001, III, at 559.

52 S. CARVAL, *op. cit.*, note 120; F. GREFFE & P. GREFFE, *op. cit.*, note 52 *et seq.*; J.-P. STENGER, *op. cit.*, note 118 *et seq.*

53 J.-C. COMBALDIEU, “La réparation du préjudice en matière de contrefaçon, de brevet et ses méthodes d’évaluation”, 1975 JCP éd. E., note 11.

relates more to the brand's image (loss suffered) rather than to the lost profits.<sup>54</sup> Having calculated the missed sales, the *profits lost* by the injured party must be calculated. In order to take into account the injured party's profit margin, the number of missed sales is multiplied by the profit that would have been made on each product. The profit used is that of the claimant and not that of the infringer.<sup>55</sup> One might wonder whether it would be possible to calculate the rightholder's lost profits with reference to the infringer's profit margin where it is greater than that of the injured party, as the law, from now on, provides for the taking into account of the infringer's profit.<sup>56</sup> In general,<sup>57</sup> the courts use the net profit, in other words the turnover excluding manufacturing and marketing costs.<sup>58</sup> As for the rest of the *masse contrefaisante*, i.e. the part that the rightholder would not have been in a position to sell, he can claim royalty fees for it as it is thought that the infringer ought to have obtained the rightholder's authorisation.<sup>59</sup>

If the rightholder was not making use of his right, was using it in a restricted way or was only using it through the intermediary of one or several licensees, he would not have been able to make the profits obtained by the infringer. Nevertheless, having been deprived of the payment of royalties, he can claim, by way of lost profits, compensatory royalties.<sup>60</sup>

This approach should not be modified<sup>61</sup> because it is in accordance with the Directive, the *loi contrefaçon* and the general rules of civil liability and it follows a long line of case law. Nevertheless, it would be a contradiction to award royalty fees for the rest of the *masse contrefaisante* if the courts decide that the two assessment methods (lost profits, royalty fees) are alternatives.

54 M. NUSSEMBAUM, "Evaluation du préjudice de marque. Le cas particulier de l'atteinte à l'image de marque", 1993 JCP éd. E., No. 50, at 567 *et seq.*, 568, note 10.

55 Paris Court of Appeal, 19 January 2007, 2007 PIBD 848, III, at 227. In cases involving luxury goods, the injured party would certainly claim his profit margin. However, upward of this figure, he would face difficulties proving missed sales.

56 Reference is already made to the infringer's profit margin by some courts, but only in cases where the rightholder's true profit margin is uncertain and only as a comparative element for assessing the claimant's profit ratio, *see* J.-P. STENGER, *op. cit.*, note 134; Paris Court of Appeal, 12 January 1967, 1967 Ann. Propr. ind. 150, 154.

57 *See*, however, Paris District Court, 2 April 2007, 2007 PIBD 851, III, at 297, in which the court seems to retain the gross and not the net profit.

58 In general, the case law accepts the deduction of all expenses, that is to say, the costs of technical and commercial studies, depreciation of the specific tools or a share of the non-specific tools, general expenses, and even advertising costs that the rightholder would have been required to pay in order to make the infringing sales. *See* J.-P. STENGER, *op. cit.*, at 22, note 136, and the numerous references made therein.

59 Paris Court of Appeal, 4 July 2003, 2004 PIBD 779, III, at 79; Paris Court of Appeal, 13 June 2003, 2003 PIBD 775, III, at 563; Supreme Court, 27 October 1992, 1993 PIBD 537, III, at 76.

60 For this method of assessing damages, *see* IV.2.

61 J. SCHMIDT-SZALEWSKI, *supra* note 12, at 11, note 19.

## ii) Loss suffered

The loss suffered (*damnum emergens*) can exist where there are no lost profits, in particular where the rightholder was not making use of his right or cannot establish any other damage.<sup>62</sup> It covers legal costs, expenses incurred in order to establish the existence of the infringement and put an end to it,<sup>63</sup> loss of a section of the market, purchasers and licensees and also loss of investments necessary to generate and promote the intellectual property right (registration and protection fees for intellectual property, research and development costs, advertising costs).<sup>64</sup> Supplementary expenses incurred (e.g. for carrying out market studies, restructuring of a company) and also costs of studies and manufacturing costs that the injured party was not able to cover to the planned extent are also included.<sup>65</sup> Lastly, infringements have damaging effects on a brand's image. Infringements often lead to a degradation of a brand's image and result in customers finding the brand less attractive, mainly because of the poor or mediocre quality of the counterfeit products.<sup>66</sup> For luxury products, this prejudice is often the only significant damage, with the rightholder not being able to invoke any loss of profits.<sup>67</sup>

This approach should not be modified by the Directive and the *loi contrefaçon* as it follows a long line of case law and conforms with the general rules on civil liability, the Directive and the *loi contrefaçon*, which encourage making compensation available for a maximum of different types of damage.

## iii) Infringement of an exclusivity right (*droit privatif*)

There is a significant tendency in the case law to acknowledge prejudice specific to intellectual property law, separate from classic commercial prejudice, which results from the infringement of an exclusivity right (*droit privatif*). The violation of an intellectual property right would per se constitute damage capable of being compensated for, independent of whether the

62 Paris, 15 June 1976, 1977 *Annales* 145; Paris, 7 March 1975, 1975 *Annales* 247.

63 In relation to industrial property, see A. CHAVANNE & J.-J. BURST, "Droit de la propriété industrielle", note 470 (Dalloz, 5th ed., 1998); J. PASSA, *op. cit.*, note 65. In relation to copyright, see N. QUOY, *op. cit.*, note 1502.

64 J.-P. STENGER, *op. cit.*, note 149 *et seq.*; E. DREYER, "Procédures et sanctions", 2006 *Juris-classeur*, Prop. litt. et art., fasc. 1612, note 131, 138; F. SIRIAINIEN, *op. cit.*, at 98; J. FOYER & M. VIVANT, at 353.

65 Paris Court of Appeal, 7 July 1978, 1979 *PIBD* 232, III, at 127.

66 For copyright, E. DREYER, *op. cit.*, note 139. For trademarks and designs, see M. NUSSEMBaum, *op. cit.*, at 303; S. MANDEL, "L'indemnisation du préjudice en cas de contrefaçon de marque ou de modèle", 1996 *Gaz. Pal. I*, at 600, 601; F. POLLAUD-DULIAN, *supra* note 48, note 1466. For patents, see J.-P. STENGER, *op. cit.*, note 162 *et seq.*

67 See the decision in *LVMH v. eBay*, *supra* note 24, at 16, in which the Court decided that Louis Vuitton Malletier suffered a prejudice of €10,260,000 resulting from the degradation of Louis Vuitton brand's image.

rightholder is making use of his right, and of any other interference.<sup>68</sup> However, such a method of compensation departs from the principles of civil liability since it does not require proof of actual damage in the sense required by Art. 1382 Civil Code, nor does it correspond to any of the elements in Art. 1149 Civil Code. It is for this reason that the case law is divided. As for trademarks, the case law seems fixed and regularly acknowledges the availability of compensation for such prejudice.<sup>69</sup> As for patents, designs, and copyright, the case law is less consistent, with some decisions accepting such prejudice<sup>70</sup> and others not.<sup>71</sup> To justify the award of such compensation, academics argue that infringement proceedings are based as much on restitution as they are on compensation, striving to re-establish the rightholder's exclusivity right.<sup>72</sup>

Although this prejudice departs from the principle of *réparation intégrale*, it is, nevertheless, in conformity with the Directive which allows Member States to depart from strict mechanisms of compensating for prejudice. Also, in the Directive and the new law, the phrases "negative economic consequences" and "including lost profits" leave a significant margin of discretion for the judicial authorities, inviting them to assess the prejudice in the largest possible way.<sup>73</sup> With regard to industrial property, this prejudice seems to comply with the new law: by stipulating that "infringements of intellectual property rights engage the infringer's civil liability", the law can be interpreted as requiring only proof of the infringing act. Such proof would be enough to constitute prejudice suffered by the rightholder, returning then to the problem of quantifying this prejudice. For the reasons stated above, this

68 J.-P. STENGER, *op. cit.*, note 92; F. SIRIAINIEN, *op. cit.*, at 96. The same tendency is found in the case law relating to unfair competition, in which the *faute déloyale* is punished in itself, *cf.* C. ALEXANDRE-CASELLI, "La concurrence déloyale et l'effacement de la clientèle. Compte rendu d'une analyse jurisprudentielle, in Clientèle et concurrence, Approche juridique du marché, sous la direction de Y. Chaput" 109 *et seq.* (CREDA, Litec 2000).

69 Paris Court of Appeal, 6 May 1975, 1975 Annales 233; Paris Court of Appeal, 15 June 1976, 1977 Annales 145; Paris Court of Appeal, 1st Division, 9 September 1998, 1999 RIPIA No. 195, at 50; Paris Court of Appeal, 9 December 1998, 1999 PIBD 677, III, at 245.

70 On patent, *see* Paris Court of Appeal, 17 January 1996, 1966 PIBD 608, III, at 178; Toulouse Court of Appeal, 2nd Division, 1st Section, 5 April 2000, 2000 RIPIA T. II, No. 200, at 49. On copyright, Paris Court of Appeal, 4th Division, 1 October 1990, 1991 RIDA 3, at 206, note by KEREVER. On rights related to copyright, Paris Court of Appeal, 1st Division, 11 January 2000, 2001 RIDA 187, at 286.

71 On patent, Bordeaux District Court, 15 April 1996, 1996 PIBD 61, at 401; Lyon Court of Appeal, 1 February 1999, 1999 Dossiers brevets II. On copyright, Paris Court of Appeal, 1st Division, 27 October 1992, 1993 RIDA 2, at 229; Paris District Court, 1st Division, 17 February 1999, 1999 RIDA 3, at 331.

72 J. FOYER & M. VIVANT, "Le droit des brevets", 1991 *Thémis* 330, 354; F. POLLAUD-DULIAN, *supra* note 48, note 1329; F. POLLAUD-DULIAN, "De quelques avatars de l'action en responsabilité civile dans le droit des affaires", 1997 *RTD com.* 366-367.

73 P. DE CANDÉ *op. cit.*, at 164; *see* L. BÉTEILLE, "Synthèse du rapport n° 420, Sénat, 17 septembre 2007" 3.

tendency in the case law is likely to be reinforced by the Directive and the *loi contrefaçon*.

#### iv) Infringement of a moral right

Contrary to moral prejudice, the breach of a moral right is a prejudice recognised only in relation to copyright, as moral rights belong to the author of an intellectual work. The moral right in question is traditionally described as extra-patrimonial and sometimes classified as a personality right. Essentially, the breach of a moral right consists of prejudice resulting from the violation of the author's right to a name, right to respect for his work, or his right of disclosure.<sup>74</sup>

#### v) Conclusion

By providing for negative economic consequences to be taken into account, the Directive and new law are unlikely to have an impact on the current practice. Firstly, they make a well-established line of precedent, under which damage resulting from the infringement is assessed according to the general rules of civil liability, on the basis of "lost profits" and "loss suffered", part of the Intellectual Property Code.<sup>75</sup> Secondly, by inviting the courts to provide for compensation to be available for a maximum number of types of damages, they encourage judges to continue their tendency of accepting damage resulting from a breach of a *droit privatif*, finding damage on the sole basis that there was an infringement.

#### b) Profits Made by the Infringer

The main debate actually relates to the taking into account of the infringer's profits. Both the *loi contrefaçon* and Art. 13 of the Directive provide for the profits made by the infringer to be taken into account. It is not made clear whether these profits are to serve merely as a guide when assessing the amount of prejudice suffered or whether they can be compensated for as such even if they exceed the prejudice suffered.<sup>76</sup>

#### i) Strict application of the principles of civil liability

According to one interpretation, the taking into account of the profits would not serve to disrupt the system for evaluating damages. In fact, the phrase

74 G. HENRY, *op. cit.*, at 130–131; F. SIRIAINIEN, *op. cit.*, at 91 *et seq.*, 99.

75 C. CARON, *supra* note 2, at 14, note 13.

76 A. PEUKERT & A. KUR, "Stellungnahme des Max-Planck-Instituts für Geistiges Eigentum, Wettbewerbs- und Steuerrecht zur Umsetzung der Richtlinie 2004/48 zur Durchsetzung der Rechte des geistigen Eigentums in das deutsche Recht", 2006 GRUR Int. 292 *et seq.*, 293; T. DREIER, "Ausgleich, Abschreckung und andere Rechtsfolgen von Urheberrechtsverletzungen – Erste Gedanken zur EU-Richtlinie über die Maßnahmen und Verfahren zum Schutz der Rechte an geistigem Eigentum", 2004 GRUR Int. 706, 709 *et seq.*: the reasoning relates to the Directive but is equally applicable to the French transposition legislation.



“engage the infringer’s civil liability” implies full application of the general rules of civil liability,<sup>77</sup> according to which profits only serve as a basis for calculating the loss of profits,<sup>78</sup> whereas their recovery is considered to be an award of punitive damages as the amount can exceed the prejudice suffered by the victim of the infringement.<sup>79</sup> In addition to this, according to a literal interpretation of the Directive, the infringer’s profits are used to assess the amount of damage suffered under Art. 13(1) (which is transposed in the *loi contrefaçon*), while their recovery is expressly provided for in Art. 13(2) (which is not transposed in French law). Thus, the infringer’s profits are simply considered to be a part of the prejudice.<sup>80</sup>

## ii) Departure from the strict framework of civil liability

A different interpretation is that the taking into account of the infringer’s profits would allow the courts to award compensation greater than the prejudice suffered. According to this interpretation, the provision would set out a new principle as the infringer’s profits form part of the infringer’s patrimony, not the injured party’s patrimony, and have no systematic correlation to the injured party’s prejudice (i.e. it is not because the infringer makes large profits that the injured party suffers a prejudice).<sup>81</sup> By designating the infringer as a point of reference in the evaluation of the damage, the *loi contrefaçon* would clearly indicate its intention to discourage the infringer from pursuing infringing activities and consequently order him to compensate more than just the damage suffered by the injured party.<sup>82</sup> The preparatory work confirms this new direction, emphasising the intention to improve the assessment of damages by taking into account the infringer’s profits and by introducing a “civil liability regime *sui generis* adapted to the special characteristics of intellectual property”.<sup>83</sup> This interpretation would also be in conformity with the Directive as damages must be “appropriate” (not “limited”) to the prejudice. This would also be a more favourable measure for rightholders as opposed to if the profits were only used as a guide in the assessment of the prejudice (Art. 2(1))<sup>84</sup> and a more efficient and more dissuasive measure as it deprives the infringer of benefiting from his actions.<sup>85</sup> Finally, if restitution of the profits is possible when the infringer did not act “knowingly, or with reasonable grounds to know” (Art. 13(2)), it should, *a fortiori*, be compulsory when the infringer did act “knowingly” (Art. 13(1)).

77 See above, at III. 2.

78 J.-P. STENGER, *op. cit.*, note 74.

79 J. SCHMIDT-SZALEWSKI, *supra* note 12, at 11, note 20; M. BÉHAR-TOUCHAIS, *op. cit.*, at 108, 112.

80 SCHMIDT-SZALEWSKI, *supra* note 12, note 20.

81 T. AZZI, *supra* note 2, at 709.

82 C. CARON, *supra* note 2, at 14, note 13.

83 L. BÉTEILLE, “Rapport n° 420, Sénat, 26 juillet 2007” 30 *et seq.*

84 A. KUR & A. PEUKERT, *op. cit.*, at 2.

85 See F. SIRIAINIEN, *op. cit.*, at 111, concerning the recovery of profits in general, *i.e.* not in relation to the Directive specifically.

This second approach also corresponds to current case law in which the courts, under the pretence of using their sovereign power to assess compensatory damages, occasionally increase damages to deprive the infringer of the unlawful profit he made<sup>86</sup> or to take into account his more or less reprehensible behaviour.<sup>87</sup> For example, in a case of trademark infringement, the Paris Court of Appeal accepted that, to assess the amount of damage, it should “take into account, mainly, the impact on the [defendant’s] enrichment that could have been had by using the Rothschild name”.<sup>88</sup> In copyright law, restitution of the infringer’s profits was also carried out but on the basis of the confiscation measure (Art. 335-7 CPI)<sup>89</sup> even where this amount would be greater than the prejudice.<sup>90</sup> This practice, specific to copyright, will undoubtedly be reinforced by the *loi contrefaçon* as it no longer provides that the surplus of the compensation must be settled “according to the ordinary claims” (old Art. L-335-7 CPI) but simply that revenues shall be “granted to the injured party” (new Art. 331-1-4 para. 4 CPI). Lastly, in relation to patents, restitution of profits was, at one time, granted by the courts,<sup>91</sup> which applied the principle of *restitutio in integrum*, requiring the usurper of the thing to give back to the owner the thing and the profits claimed. This was only possible until the 1970’s when the courts returned to the principle according to which compensation is limited to the prejudice suffered.<sup>92</sup>

Predominant academic opinion is that taking profits into account is a new principle in relation to the general rules of civil liability<sup>93</sup> and is the codification of the current case law.<sup>94</sup> While recognising that it goes beyond the domain of civil liability, the provision is seen as an upheaval of the principles of civil liability,<sup>95</sup> or even a realisation of punitive damages albeit confined

86 S. CARVAL, *op. cit.*, note 131 *et seq.*; M. BÉHAR-TOUCHAIS, *op. cit.*, at 114, who talks of “disguised” punitive damages. See the decision in *LVMH v. eBay*, *supra* note 24, at 14–16, in which compensatory royalties and moral prejudice were calculated on the basis of the profits made by eBay multiplied by two and four respectively.

87 F. SIRIAINIEN, *op. cit.*, at 108; A. CHAVANNE & J.-J. BURST, *op. cit.*, note 1272, *see* notes 1, 3, at 767. The decision cited above (note 24) could also be seen as punishing reprehensible behaviour (“*fautes graves d’abstention et de négligence*”) unofficially, as it awarded damages of €38.6 million.

88 Paris Court of Appeal, 10 July 1986, 1986 JCP II, at 20712, note by AGOSTINI.

89 Supreme Court, 5 November 1976, 1977 D. jurispr. 221.

90 LUCAS & H.-J. LUCAS, *op. cit.*, at 691, note 984; F. SIRIAINIEN, *op. cit.*, at 110.

91 *See, e.g.*, Lyon Court of Appeal, 30 December 1952, 1953 Ann. Propr. Ind. 161; Paris Court of Appeal, 22 February 1963, 1963 Ann. Propr. Ind. 284, 291, note by VALABRÈ-GUE.

92 For example, Supreme Court, 13 January 1971, 1971 Dalloz jurispr. 147, note by LARÈRE; C. CARON, *op. cit.*, *supra* note 2, at 14; Paris Court of Appeal, 5 May 1971, 1971 Ann. Propr. ind. 23.

93 T. AZZI, *supra* note 2, at 709.

94 F. BÉLOT, “L’évaluation du préjudice économique subi par une entreprise nouvelle ou innovante”, *Recueil Dalloz* No. 23, 12 June 2008, at 1569 *et seq.*, 1572.

95 C. DERAMBURE, *op. cit.*, at 68.

to the area of intellectual property.<sup>96</sup> Academic writing suggests using civil liability as private punishment,<sup>97</sup> sanctioning the lucrative nature of the fault by taking into account the profits made by its perpetrator, which comes back to the notion of the lucrative fault that was introduced in the draft bill reforming the French law of obligations.<sup>98</sup> It must be noted that, before the Directive, the predominant academic opinion was already in favour of the restitution of profits and advanced different justifications for it, in particular seeking to justify using civil liability as private punishment,<sup>99</sup> on the basis of the rules relating to property (Arts. 546, 549 Civil Code),<sup>100</sup> on the principle of unjust enrichment<sup>101</sup> or widening the solution of confiscating revenues, used for copyright infringements, to cover all intellectual property rights.<sup>102</sup>

### iii) Courts' margin of discretion

Both interpretations seem possible and the courts have significant room for manoeuvre. All will therefore depend on how the courts interpret the taking into account of the infringer's profits in relation to the concept of *réparation intégrale*. It can be expected that the courts will favour the second approach insofar as the Directive and the *loi contrefaçon* seem to allow the award of sums greater than the prejudice suffered and where such sums are already awarded under the current practice.

Granting significant room for manoeuvre to the courts appears to be in conformity with the Directive as, even though the phrase "the competent judicial authorities ... order" requires the courts to grant compensation when the conditions in Art. 13(1) are fulfilled,<sup>103</sup> the provision also gives

96 C. CARON, *supra* note 2, at 14; F. BÉLOT, *op. cit.*, at 1572.

97 S. CARVAL, *op. cit.*, note 127 *et seq.*; F. POLLAUD-DULIAN, *supra* note 48, notes 733, 1023, 1464; F. SIRIAINIEN, *op. cit.*, at 107; P.-Y. GAUTIER, *op. cit.*, note 439.

98 J. CASTELAIN & N. REBBOT, *op. cit.*, at 171; M.P. CATALA "Avant-projet de réforme du droit des obligations (Art. 1101 à 1386 c. civ.) et du droit de la prescription (Art. 2234 à 2281 c. civ.), du 22 sept. 2005", specifies at Art. 1371 that: "The author of an obviously deliberate fault, and in particular of a lucrative fault, can be ordered, in addition to compensatory damages, to pay punitive damages". On this subject, see L. GRYNBAUM, "Une illustration de la faute lucrative: le piratage de logiciels", *Dalloz cahier droit des affaires*, 2 March 2006, No. 9, at 655 *et seq.*; D. FASQUELLE, "L'existence de fautes lucratives en droit français", *Les Petites Affiches*, 20 November 2002, No. 232, at 27.

99 S. CARVAL, *op. cit.*, note 254; F. POLLAUD-DULIAN, *supra* note 50, at 1999, notes 733, 1023, 1464; F. SIRIAINIEN, *op. cit.*, at 107; P.-Y. GAUTIER, "Propriété littéraire et artistique", note 439 (5th ed., 2004); M. BÉHAR-TOUCHAIS, *op. cit.*, at 113; C. CARON, "La Lutte contre la contrefaçon", 2005 *Cahiers de droit de l'entreprise* No. 3, at 15.

100 C. KORMAN, "Les fruits restitués du parasitage économique", 1988 *Gaz. Pal. II*, at 703.

101 A remedy sought mostly in relation to free riding: B. VATIER, "La concurrence parasitaire", 1997 *Gaz. Pal. II*, at 1237 *et seq.*; Paris Court of Appeal, 18 May 1989, 1990 *Dalloz*, note by CADIET. *Contra*, P. LE TOURNEAU, "Jurisclasseur, Concurrence - Consommation", No. 227, note 106.

102 M. BÉHAR-TOUCHAIS, *op. cit.*, at 114; F. SIRIAINIEN, *op. cit.*, at 107.

103 C.-H. MASSA & A. STROWEL, *op. cit.*, at 15; C. ZOLYNSKI, *op. cit.*, note 40.

them the possibility to choose between different elements and gives them a certain amount of discretion.<sup>104</sup>

However, this margin of discretion is limited by certain guidelines. The Directive allows compensation to be greater than the prejudice suffered but indicates that the aim is compensatory. The *loi contrefaçon* sets out the new assessment methods but, at the same time, it does not encourage a break from the mechanisms of civil liability, referring to “civil liability”. As such, even if the courts were to take certain liberties with the principles of civil liability, they would, nevertheless, not be able to break totally free from them. It is expected that the courts will increase the award of damages on the basis of the prejudice suffered (for example, by multiplying the compensatory royalties) or by being more lenient as to the proof of the injured party’s prejudice (for example, by assuming there to be a correlation between the prejudice suffered and the infringer’s profits) in order to deprive the infringer from his unlawful profits.<sup>105</sup> On the other hand, when the difference between the prejudice suffered by the victim and the profits made by the infringer appears to be too great, particularly where the victim was not making use of his right or did not have sufficient commercial power, the courts will probably only award compensatory royalties or a small part of the infringer’s profits on top of compensation for the prejudice suffered.

In addition, the Directive invites Member States to make provision for sanctions that are graduated and in proportion with the seriousness of the infringement. The judge must therefore take the context into account, in particular, the type of violation, and not treat all infringements in the same way. As such, even though it might be appropriate to provide for stricter sanctions for cases of counterfeiting and piracy, “ordinary” infringements should remain subject to the compensatory principle.<sup>106</sup> This balance is even more important as it allows the collateral effects of a *de facto* extension of the protection of industrial property rights, which could be particularly harmful for competition and the internal market, to be avoided. In actual fact, stricter sanctions, i.e. damages greater than the prejudice suffered, have a dissuasive effect not only on possible future infringers but also on diligent economic actors. Such economic actors will tend to stick to a safer margin where they think an infringement might be possible in order to avoid such sanctions being imposed upon them. Stricter sanctions therefore create a *de facto* extension of the protection of intellectual property rights which might fall into a somewhat grey area.<sup>107</sup> The courts would, as such, have to bear

104 P. DE CANDÉ, *op. cit.*, at 164; L. BÉTEILLE, “Synthèse du rapport n° 420, 17 septembre 2003” 3.

105 See the decision in *LVMH v. eBay*, *supra* note 24, at 16: the prejudice suffered (degradation of the brand’s image) was the basis of the assessment of damages but was calculated on the basis of eBay’s profits (then even increased by a multiple of four).

106 See T. AZZI, *supra* note 2, at 706, note 28.

107 See A. KUR, *supra* note 7, at 829–830; A. KUR, “Prävention – Cui Bono?: Überlegung zur Schadensersatzberechnung im Immaterialgüterrecht”, in: “Festschrift für Gert Kolle und Dieter Stauder” 365 *et seq.*, 367, 378 (Cologne, Berlin, Munich 2005).

this aspect in mind and confine stricter sanctions to infringements classed as serious and evident, such as counterfeiting and piracy, i.e. where the intention to use and infringe a right belonging to a third party is evident.

#### iv) Conclusion

Neither the Directive nor the *loi contrefaçon* make it clear whether the infringer's profits should merely be taken into account as an element of the prejudice suffered or if the award of damages may exceed the prejudice suffered. Although both interpretations seem possible, the French courts will nevertheless tend to favour the second insofar as, firstly, it is in line with the Directive, *loi contrefaçon* and a certain amount of judicial practice and, secondly, as the legislature and academic opinion consider this provision to be progressive. The courts also have significant room to manoeuvre which will, however, be limited. The courts will have to ensure that they do not break totally free from civil liability mechanisms and take profits into account according to each individual case, the context and the type of infringement: in other words, provide for graduated and proportionate sanctions. The courts should bear in mind the issue of a de facto extension of the protection of intellectual property rights and confine awards of damages greater than the prejudice suffered to serious and evident infringements such as counterfeiting and piracy.

It is interesting to note here that there is an amount of antagonism between the will of the legislature, academic opinion and the majority of case law with regard to the awarding of damages greater than the prejudice suffered by taking profits into account and the submission of the award to the general rules of civil liability. What is more, during the preparatory work, a number of people wondered about the scope of the notion of "unlawfully made profits", some considering the notion to contravene the general rules of civil liability, others favouring the notion.<sup>108</sup> A study of the case law reveals the same concerns, with the courts departing from the principle of *réparation intégrale* whilst reiterating the submission of their decision to this principle.

#### c) Moral Prejudice

In accordance with Art. 13 of the Directive, the *loi contrefaçon* stipulates that the judicial authorities shall take "moral prejudice" into consideration. It establishes, in French law, a type of damage that is difficult to determine. As intellectual property rights are frequently held by companies, it is difficult to imagine what moral prejudice, distinct from their financial assets or investments, could be suffered by a commercial company. Such prejudice could consist of attacks on the company's image or reputation. It can be inferred from these texts that the legislature wanted to give courts a larger

<sup>108</sup> See, in particular, the full account of the public meeting (19 September 2007), Ms Christine Lagarde's speech in favour of the restitution of profits, and Ms Michelle Demessine's speech against it.

basis upon which to assess damages.<sup>109</sup> Furthermore, it invites the courts to accept this type of prejudice on a clear basis, after having deleted the expression “if necessary” which seemed to limit the number of cases in which moral prejudice could be found.<sup>110</sup> It is interesting to note that such prejudice, which is notoriously difficult to put a figure on, is sometimes added to the commercial prejudice in order to fully compensate the victim of the infringement and to obtain a dissuasive measure to deter infringers.<sup>111</sup>

## 2. Assessment Method 2: Lump Sum

Although the first assessment method is the principal method to be applied by the courts, there is, nevertheless, a second method, according to which “the court can, as an alternative and at the request of the injured party, award, by way of damages, a lump sum of no less than the royalties which would have been due if the infringer had requested authorisation to use the intellectual property right that he infringed”.

### a) In General

The *loi contrefaçon* introduces, in the Intellectual Property Code, the method of assessing compensatory royalties which is the subject of a long tradition in the case law, and extends it to all intellectual property rights.<sup>112</sup> This award of damages resembles a *contractual royalty* since the amount is calculated in accordance with “the royalties and fees that would have been due if the infringer had requested the authorisation to use the intellectual property right that he infringed”. It is calculated using the turnover made by the infringer (*masse contrefaisante*) and on the basis of comparable licensing fees (for the same goods or in the same industrial sector for comparable goods) or, where there are no comparable fees, on the basis of a hypothetical rate, i.e. the rate that would have been negotiated by the parties taking into account the circumstances that could have an influence on the fee (the economic and commercial interest in the goods, a company’s policy not to grant licences, the respective bargaining power of parties).<sup>113</sup> However, in

109 P. DE CANDÉ, *op. cit.*, at 164.

110 P. GOSSELIN, “Rapport n° 178, Assemblée Nationale, 26 septembre 2007, Sénat, Projet de loi: contrefaçon, 1ère lecture, Amt. n° 16” 97.

111 L. GRYNBAUM, *op. cit.*, at 655 *et seq.* See the decision in *LVMH v eBay*, *supra* note 24, at 16, in which a moral prejudice of €1 million was added to the damage resulting from the degradation of Louis Vuitton brand’s image and the compensatory royalties.

112 This assessment method is, above all, applicable to patents. It is less common in other areas and academic opinion is divided: some consider it applies equally to trademarks and designs, *see, e.g.*, F. POLLAUD-DULIAN, *supra* note 48, notes 1467, 1025, 1026; J.-C. COMBALDIEU, *op. cit.*, note 11; S. MANDEL, *op. cit.*, at 601. For others, it remains specific to patents and should not be applied in other areas, in particular, to trademarks, P. MATHIÉLY, “Le nouveau droit français des brevets d’invention”, 1991 Librairie du JNA 530 *et seq.*

113 J.-P. STENGER, *op. cit.*, note 157; “Code de la propriété intellectuelle”, 2007 Litec 351; “Code de la propriété intellectuelle”, 2007 Dalloz 471. *See, e.g.*, Paris District Court, 29 November 1972; 1973 PIBD III, at 174 *et seq.*

French law, the term *compensatory royalties* is preferred as the courts tend to increase the level of contractual royalties.

b) "As an Alternative"

Following the example in the Directive, the law stipulates that this method should apply "as an alternative". In accordance with Recital 26 of the Directive, this method should be used where the claimant is not in a position to prove the necessary elements for the first assessment method, in particular where no "*saisie-contrefaçon*" procedure was undertaken or no right to information was implemented, or where these measures did not give satisfactory results.<sup>114</sup>

Where the injured party was making use of his intellectual property right, compensatory royalties are generally only awarded for the part of the infringer's sales that the injured party would not have been able to make himself. From now on, they should be available where it is not possible to assess the damage under the first method as well as where this damage proves to be less profitable than the compensatory royalties,<sup>115</sup> in particular because of the increase of the compensation rate by the courts.<sup>116</sup> This could be the case when the owner of a brand of luxury products does not manage to prove either lost profits or a loss suffered or the profits made by the infringer. Where the injured party was not making use of his intellectual property right, however, he can only claim compensatory royalties.<sup>117</sup>

It might be wondered whether it would be possible to accumulate the amount awarded under the first and the second assessment methods. This method is already practised by the courts where they add together the compensation for lost profits, calculated from the *masse contrefaisante*, with compensatory royalties for the surplus of the *masse contrefaisante*. One interpretation is that the idea of accumulating the damages should be rejected, the second method being an "alternative" to the first. According to another interpretation, the method, which is required to award damages of "at least" the amount of the royalty fees, may award damages that exceed them. Thus, the courts could award a lump sum greater than the royalty fees, by taking into account different elements, including, in particular, the elements of the first assessment method. The courts will tend to favour the second interpretation insofar as it is in conformity with the texts and corresponds to judicial practice.<sup>118</sup>

114 P. DE CANDÉ, *op. cit.*, at 165. See also L. BÉTEILLE, "Synthèse du rapport n° 420, 17 septembre 2003" 3.

115 J.-P. STENGER, *op. cit.*, note 160.

116 See below, at IV.2.e).

117 J.-P. STENGER, *op. cit.*, note 160.

118 See the decision in *LVMH v. eBay*, *supra* note 24, in which compensatory royalties were added to the damages for loss of profit and moral prejudice.

### c) "At the Request of the Injured Party"

The law, unlike Art. 13 of the Directive, specifies that this method must have been requested by the injured party. This is in conformity with the Directive, as giving the rightholder the choice of compensation method is a more favourable method (Art. 2(1)). As such, the courts should not be able to keep this alternative lump sum method of assessing damages out of hand. However, where the courts have no proof to allow them to decipher the actual amount of compensation to award the injured party and the injured party has not requested the compensatory royalties' method, judges must be able to adopt this method automatically in accordance with the primacy of Community law.<sup>119</sup> Moreover, this is confirmed by the legislature which deliberately left out the term "in appropriate cases" in order to leave it to the courts to decide for which cases the system should be used.<sup>120</sup>

### d) Strict Application of the Principles of Civil Liability

The Directive initially made provision for a lump sum fixed at at least twice the amount of the contractual royalties. The measure was eventually abandoned as it seemed too close to punitive damages, a concept foreign to the civil law tradition in which damages serve only to compensate the victim. The final text includes a more modest provision, the sum being determined on the basis that the royalty fees should be the minimum. According to Recital 26 of the Directive, "The aim is not to introduce an obligation to provide for punitive damages but to allow for compensation based on an objective criterion while taking account of the expenses incurred by the rightholder, such as the costs of identification and research".

In French law, the compensatory royalties' method is considered to be a form of compensating the prejudice suffered based on tort law. In conformity with the principle of *réparation intégrale*, it corresponds to the loss of profits of the victim:<sup>121</sup> the contract ought to have been concluded and was not due to fault on the part of the infringer, and so the rightholder will nevertheless receive the price.

### e) Departure from the Strict Framework of Civil Liability

In practice, however, it is doubtful that a contract would have been concluded in many cases involving infringements. In cases of "plagiarism" or copies of luxury products, for example, the rightholder would never have agreed to conclude a contract and therefore there is no loss of profits. The provision stipulates that the sum awarded cannot be less than the compensatory royalties and seems to indicate that the injured party will receive this

119 J. SCHMIDT-SZALEWSKI, *supra* note 12, at 12; P. DE CANDÉ, *op. cit.*, at 165.

120 P. GOSSELIN, "Rapport n° 178, Assemblée Nationale, 26 septembre 2007, Sénat, Projet de loi: contrefaçon, 1ère lecture, Amt. n° 6" 97.

121 P.-Y. GAUTIER, "Fonction normative de la responsabilité: le contrefacteur doit être condamné à verser au créancier une indemnité contractuelle par équivalent", *Recueil Dalloz* No. 11, 13 March 2008, at 727 *et seq.*, 728, note 6; J.-P. STENGER, *op. cit.*, note 148.



sum independent of the chances of concluding a contract with the infringer or a third party. Any allegation on the part of the infringer that the rightholder would not have granted him a licence should be considered irrelevant.<sup>122</sup> It is therefore an exception to the rule on compensation that prohibits compensation from exceeding the amount of the damage that it is supposed to be compensating for.<sup>123</sup> Proving the existence of prejudice would be the only necessary element.<sup>124</sup> The Directive equally invites a departure from the element of "loss of profits" used in Art. 13(1)(a) as it includes a different assessment method in Art. 13(1)(b). The method in Art. 13(1)(b) should be considered as an autonomous assessment method, where the amount should be "appropriate to the actual prejudice suffered."

This interpretation conforms with a well-established line of case law in which, where the rightholder is not making use of his right, compensatory royalties are systematically awarded,<sup>125</sup> independent of the chance of concluding a licensing contract.<sup>126</sup> It is interesting to note that the boundary between Art. 13(1) and Art. 13(2) of the Directive is blurred as the systematic award of compensatory royalties (the chances of concluding a licensing contract and the requirement of fault being irrelevant) resembles pre-established damages.<sup>127</sup>

Following a purely compensatory logic, the rate of compensatory royalties should be strictly equal to contractual royalties.<sup>128</sup> However, this reasoning has been the subject of criticism in academic writing as it puts the infringer in a situation equivalent to that of a licensee, who only has to pay the royalties that he owed to the rightholder, regardless of his right. In addition, the payment would be late and at a price fixed by the courts.<sup>129</sup> This serves only to encourage infringement of intellectual property rights as the infringer runs little risk.<sup>130</sup> This is why the courts nowadays hesitate less and less to increase, sometimes considerably (an increase of up to five times the amount), the amount of contractual royalties in order to take into account the fact that the infringer is not a contractual licensee who freely negotiated the applicable rate, and who is not in a position to refuse the conditions

122 C.-H. MASSA & A. STROWEL, *op. cit.*, at 15, who look at the proposal for a Directive. Their reasoning is equally applicable to the final text of the Directive.

123 P. GOSSELIN, "Rapport n° 178, Assemblée Nationale, 26 septembre 2007" 73; P.-Y. GAUTIER, *supra* note 121, at 727, note 1.

124 P.-Y. GAUTIER, *supra* note 121, at 728, note 6.

125 Supreme Court, 1st Civil Division, 3 July 1996, No. 94-14-820, *Caisse d'épargne des Pays Lorrains v. agent judiciaire du Trésor*, Juris-DataNo. 1996-002907; 1996 Bulletin civil 1, No. 296.

126 P. MASSOT, "Les sanctions de la contrefaçon", 2005 cahier IRPI No. 6, at 46.

127 See C. CARON, *supra* note 2, at 14, note 13, who discusses pre-established damages.

128 J.-C. COMBALDIEU, "La réparation du préjudice en matière de contrefaçon, de brevet et ses méthodes d'évaluation", 1975 JCP, éd. E., note 9.

129 A. BERTRAND, "Le droit d'auteur et les droits voisins" 455, note 491 (Dalloz, 2nd ed., 1999); S. CARVAL, *op. cit.*, note 196, at 207.

130 A. CHAVANNE & J.-J. BURST, *op. cit.*, note 482; J. FOYER & M. VIVANT, *op. cit.*, at 353.

imposed upon him.<sup>131</sup> As an example, in its decision of 30 January 1985, the Paris District Court decided that the rate “is necessarily higher than the rate freely consented to by licensees, in order to preserve a deterrent nature with regard to infringers”.<sup>132</sup>

Encouraged by certain authors,<sup>133</sup> this tendency to increase the rate of compensatory royalties is nevertheless criticised by others for its arbitrary nature.<sup>134</sup> All agree that it takes damages beyond their merely compensatory function in the classic domain of civil liability. Academic opinion diverges as to the justification for this tendency. The royalties method could be based upon the rules of unjust enrichment (the infringer made money through a saving, the rightholder lost money which did not become part of his patrimony),<sup>135</sup> or upon the rules of property law (*restitutio in integrum*: the payment of the compensation constitutes a *restitutio* by which the injured party claims back the profits from the unlawful use of the thing, in such a way that the sum awarded acts more like a “retroactive payment of royalties” than compensatory damages).<sup>136</sup> Another basis would be to take civil liability in its normative function (exceeding the compensatory role and taking other parameters into consideration, aiming in particular at the punishment of the infringer for his unlawful behaviour),<sup>137</sup> or to sanction the lucrative nature of fault by taking into account the profits made by the perpetrator, which comes back to the notion of lucrative fault that was introduced in the draft bill to reform the French law of obligations.<sup>138</sup>

The Directive and the *loi contrefaçon* do not appear to prohibit the increase of royalty fees since they stipulate that the lump sum cannot “be less” than the royalties.<sup>139</sup> In addition, unlike the initial version, the final text of the Directive not only avoids the systematic doubling of royalties, but also avoids limiting compensation to twice (triple, quadruple, etc.) the royalty fees. Also, by increasing the royalty fees, the courts could indirectly deprive the infringer of these profits, thus taking into account the infringer’s unlawful profits as provided for in Art. 13(1)(a).<sup>140</sup>

131 For numerous examples of cases, F. POLLAUD-DULIAN, *supra* note 50, note 739, at 139; J.-P. STENGER, *op. cit.*, note 158.

132 Paris District Court, 30 January 1985, 1986 Dalloz I.R. 136, note by J.-M. MOUSSERON & J.SCHMIDT.

133 F. POLLAUD-DULIAN, *supra* note 50, note 739; A. CHAVANNE & J.-J. BURST, *op. cit.*, note 482, at 287.

134 E. DREYER, *op. cit.*, note 136; J.-P. STENGER, *op. cit.*, note 158.

135 P.-Y. GAUTIER, *supra* note 121, note 7, at 728.

136 H. DESBOIS, “Le droit d’auteur en France”, note 783 (3rd ed., Dalloz 1978).

137 P.-Y. GAUTIER, *supra* note 121, note 7, at 728.

138 See note 98.

139 L. BRÜNING-PETIT, *op. cit.*, at 352; J. SCHMIDT-SZALEWSKI, *supra* note 12, note 27; A. KUR, *supra* note 107, at 367.

140 See the decision in *LVMH v. eBay*, *supra* note 24, at 14, in which the compensatory royalties were multiplied by two and added to the lost profits and moral prejudice, therefore depriving eBay of its profits.

Therefore, insofar as the Directive and the *loi contrefaçon* do not prohibit awards of damages greater than the royalty fees and where such awards are already granted in current judicial practice, it is expected that the courts will continue to increase the amount of the fees.

However, the same reasoning as that set out in relation to profits must be looked at here. Even though the increase of the rate of the license fee seems possible under the Directive and the *loi contrefaçon*, it will be necessary to qualify this trend and limit the courts' room to manoeuvre. The courts will not be able to totally break away from the mechanisms of civil liability and ought to take the prejudice suffered to be the basis of the award of damages. They must also provide for graduated and proportionate sanctions, taking the context into account, particularly the type of infringement. Even though it might be appropriate to assess heavier penalties in cases of professional and often industrial infringements, "ordinary" infringements should remain subject to the principle of compensatory damages. This balance is even more important as it allows the collateral effects of a *de facto* extension of the protection of intellectual property rights (as explained above).

#### f) Conclusion

Before the *loi contrefaçon*, the compensatory royalties' method was already being used by the courts and conveyed a kind of switch away from the principles of civil liability: the courts applied the method, firstly, independent of the fact that the rightholder would not have granted a licence had it not been for the violation and, secondly, increasing the rate of the royalty fees in order to deprive the infringer of his profits or punish his reprehensible behaviour.

The Directive and the *loi contrefaçon* should reinforce this judicial practice, as they seem to consider the fact that the rightholder would not have granted a licence to be irrelevant and do not prohibit the increase of the rate of the licence fee. This will inevitably lead to awards of compensation greater than the prejudice suffered, going beyond the strict domain of civil liability. However, the courts will have to make sure that they do not completely break away from the mechanisms of civil liability and increase the compensatory royalties in accordance with each individual case, the context and the type of infringement, in other words, provide for graduated and proportionate sanctions. The courts should bear in mind the issue of a *de facto* extension of the protection of intellectual property rights and restrict increasing the rate of the licence fee to serious and evident infringements such as counterfeiting and piracy.

### V. Conclusion

Traditionally, claims for the compensation of prejudice are based on tort law but, because of the difficulties in calculating damages, the courts occasionally depart from the traditional principles, making it easier to prove prejudice or increasing the award of compensation.

Do the Directive and the *loi contrefaçon* change the way in which damages are assessed? On the one hand, they allow for an increase in damages by widening the basis for the calculation of compensation, thanks to the taking into account of the infringer's profits and the guarantee of a lump sum. Additionally, they do not appear to prohibit damages exceeding the prejudice suffered and increasing the rate of compensatory royalties. Consequently, they appear to officially accept the recovery of all or part of the infringer's profits as well as the increase in compensatory royalties. In both cases, this could lead to awards of damages greater than the prejudice suffered, resulting in a certain departure from the traditional rules of civil liability, specifically the principle of *réparation intégrale*. On the other hand, even though they allow some flexibility as to the strict mechanisms of civil liability, they do not attempt to totally depart from them, the *loi contrefaçon* referring to civil liability and the Directive taking the prejudice suffered as the basis for damages, aiming at compensation not punishment. Moreover, the courts will have to assess damages in a graduated and proportional way, taking into account the type of infringement and its context. This will allow a de facto extension of the protection of intellectual property rights to be avoided.

With these awards of damages that are greater than the damage suffered, the predominant academic opinion considers that damages can be taken as having a punitive function,<sup>141</sup> while the legislature speaks about a regime *sui generis*, better adapted to the domain of intellectual property, which takes into account the specific characteristics of infringements and the economic stakes involved.<sup>142</sup> Whether one calls this type of compensation punitive or not, there is no denying that, in both cases, the damages exceed the mere compensation of the prejudice suffered in the sense of Art. 1382 Civil Code. It can be assumed that this reform will, in the medium term, lead to the full restitution of the infringer's profits.<sup>143</sup>

The notion of prejudice has undergone an evolution and seems to acquire a certain autonomy from the general rules. Whereas previously, reference was exclusively made to the Civil Code, the requirement of prejudice is, from now on, defined in the new law. It differs from the requirement in Art. 1382 as it is no longer strictly limited to the "loss of profits" and "loss suffered", the basis for its calculation going beyond the prejudice suffered. The basis of an action for infringement is also a matter for debate. The "civil liability" targeted here would not be exactly the same as the liability in the Civil Code but rather a liability that is specific to intellectual property rights. However, by stipulating that infringements of intellectual property rights "engage the infringer's civil liability", the *loi contrefaçon*

141 C. CARON, *op. cit.*, *supra* note 2, at 14; T. AZZI, *supra* note 2, at 710; F. POLLAUD-DULIAN, *supra* note 73, at 375; F. SIRIAINIEN, *op. cit.*, at 108. *See*, on the law of obligations in general, F. TERRÉ, P. SIMLER & Y. LEQUETTE, *op. cit.*, note 900.

142 L. BÉTEILLE, "Rapport n° 420, Sénat, 26 juillet 2007" 30 *et seq.*

143 C. CARON, *supra* note 2, at 14.

prevents the courts from completely freeing themselves from the traditional mechanisms of civil liability. A certain antagonism can therefore be observed between the will to respect the traditional principles of civil liability and the will to increase the award of damages. Although it appears impossible to depart completely from the principles of civil liability, it is nevertheless possible to reduce their restrictiveness.<sup>144</sup> A flexible application of the principle of *réparation intégrale*, allowing the courts to increase compensation according to the circumstances, i.e. to deprive the infringer of all or part of his profits, without completely abandoning the general rules of civil liability, is to be expected.