

Compensatory legal consequences of infringements of intellectual property rights

Legal framework and practice in Hungary

Contents

- International legal background: TRIPS, EU Enforcement Directive
- Application of civil law rules on liability for damages in case of infringement of intellectual property rights
- The criminal law concept of pecuniary loss
- Broad concept of compensation for the infringement of intellectual property rights, restitution, reimbursement of enrichment
- Definition of economic damage and unfair enrichment in Hungarian IPR legal practice

International legal background: TRIPS (Marrakesh Agreement establishing the WTO Annex 1/C, 15 April 1994), EU Enforcement Directive (2004/48/EC directive of the European Parliament and of the Council)

The relevant provisions of the TRIPS Agreement and the Enforcement Directive have been appropriately transposed into Hungarian law:

Act VII of 1994 – amending certain industrial property and copyright laws

Act IX of 1998 – on the promulgation of the Marrakesh Agreement establishing the World Trade Organization and its Annexes, drawn up in the framework of the General Agreement on Tariffs and Trade (GATT)

Act CLXV of 2005 – amending certain Acts relating to the enforcement of industrial property rights and copyright

Application of civil law rules on liability for damages in case of infringement of intellectual property rights

Categories of IPR	Acts on IPR :	Compensation rules
Copyright works	Act LXXVI of 1999 („Copyright Act”)	Section 94(2)
Patentable inventions, plant variety rights	Act XXXIII of 1995 („Patent Act”)	Section 35(3) Section 34 Section 43/A(2)
Utility models	Act XXXVIII of 1991 („Utility Model Act”)	Section 19→Patent Act Section 18 Section 9→Patent Act
Trade marks, geographical indications	Act XI of 1997 („Trade Mark Act”)	Section 27(3)
Designs	Act XLVIII of 2001 („Design Act”)	Section 23(2)→Patent Act Section 22 Section 29/A(2)
Know-how – trade secrets	Act LIV of 2018 („Act on the Protection of Business Secret”)	Section 9
Distinctive appearance of goods or services, indications of source	Act LVII of 1996 („Section 6 of Unfair Market Practices Act”)	Section 86(2)(e)

Application of civil law rules on liability for damages in case of infringement of intellectual property rights

Referring rules in IPR laws → Civil Code (Act V of 2013 – „Civil Code“):

Section 6:519 [General rule on liability]

A person causing unlawfully damage to another shall compensate for the damage caused. The person causing damage shall be exempted from liability if he proves that his conduct was not attributable to him.

Section 1:4 [Principle of generally expected standard of conduct. Attributable conduct]

(1) Unless otherwise provided in this Act, in civil law relations, one shall proceed with the care that is generally expected under the given circumstances.

Fault: any **intentional** or **negligent** conduct
Also applicable **to legal persons** by fiction

→

Section 6:522 [The scope of the liability for damage]

- (1)** The person causing damage shall compensate the injured party for his entire damage.
(2) When providing full compensation, the person causing damage shall compensate for
- a) the diminution in the value of the assets** of the injured party;
 - b) the loss of profit;** and
 - c) the costs** necessary to eliminate the pecuniary losses of the injured party.

Prohibition to profit from damages:

(3) Damages shall be reduced by the material gain of the injured party arising from the damage caused to him, except if it is not justified, taking into account the circumstances of the case.

The criminal law concept of pecuniary loss

Intentional infringing conduct = criminal offence

Form of the offence since 15 May 1993, Criminal Code now in force: Act C of 2012 („Criminal Code”)

Categories of IPR	Facts in Criminal Code	§
Copyright works, subject matter of related rights	Violation of copyright or related rights	Section 385
Circumvention of effective technological measures	Circumventing technical measures protecting intellectual property	Section 386
Protection of rights management information	Falsifying rights management information	Section 387
Patent, plant-variety right, SPC, trade mark, geographical indication, design	Violation of industrial property rights	Section 388
Know-how (trade secret)	Violation of trade secrets	Section 418
Distinctive appearance of goods or services, indications of source	Imitation of competitors	Section 419

Pecuniary loss: property **damage** and **loss of pecuniary advantage**
equals approximately

the concept of damage elements of Section 6:522(2) of Civil Code: a) **diminution in the value of assets**
and b) **loss of profit**

Broad concept of compensation for the infringement of intellectual property rights, restitution, reimbursement of enrichment

Violation of personality rights – RESTITUTION(≠ Damages)

Hungarian law	EU Enforcement Directive
<p>Restitution: Acts on IPR – Section 94(2) of Copyright Act, Section 43/A(2) of Patent Act, Sections 9 and 18 of Utility Model Act, Section 27(2)(e) of Trade Mark Act , Section 29/A(2) of Design Act, Section 86(2)(e) of Unfair Market Practices Act</p> <p>→ Section 2:52 of Civil Code:</p> <p>„Any person whose personality rights have been violated may claim a restitution for non-material harm done to him.”</p>	<p>Enforcement Directive Article 13(1)(a):</p> <p>When setting damages to be paid to rightholder „all appropriate aspects shall be taken into account [...], in appropriate cases, [...] the moral prejudice caused to the rightholder.”</p>

Broad concept of compensation for the infringement of intellectual property rights, restitution, reimbursement of enrichment

The level of Hungarian IPR protection allows for a more favourable treatment of violations of personality rights than the protection provided for in Article 13 of the Enforcement Directive

→ burden of proof is reversed: „no loss or damage was caused”

Restitution ≠ damages, since

- **apart from the fact of violation, there is no need to prove any loss or damage**
- **amount of grievance award = loss to aggrieved party (compensation) + social condemnation of the violation (sanction)**

BUT

The rules on liability for damages apply:

- **the person committing the violation can exculpate themselves from fault (Civil Code)**

Broad concept of compensation for the infringement of intellectual property rights, restitution, reimbursement of enrichment

„Reimbursement” to the rightholder of the ENRICHMENT achieved by infringement

Hungarian law	TRIPS, EU Enforcement Directive
<p>Reimbursement of enrichment: Acts on IPR – Section 94 (1)(e) of Copyright Act, Section 35 (2)(e) of Patent Act, Section 19(2) of Utility Model Act, Section 27 (2)(e) of Trade Mark Act, Section 23 of Design Act , Section 7(1)(g) of Act on the Activities of Lawyers, Section 86(3)(a) of Unfair Market Practices Act</p> <p>The rightholder „can claim the reimbursement of the enrichment achieved by the infringement.”</p>	<p>Enforcement Directive Article 13(1)(a):</p> <p>When setting damages to be paid to rightholder „all appropriate aspects shall be taken into account, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer [...]”</p> <p>Article 13(2):</p> <p>Where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity, Member States may lay down that the judicial authorities may order the recovery of profits or the payment of damages, which may be pre-established.</p>

Broad concept of compensation for the infringement of intellectual property rights, restitution, reimbursement of enrichment

The reimbursement of enrichment is an objective legal consequence of IPR infringement, and cannot be considered as damages:

- it is not conditional upon the a conduct attributable to the infringer
- it is not conditional upon proof of a causal link between the profit and the infringement
- The prohibition of obtaining material gain from damage does not apply:

Section 6:522(3) of Civil Code

„Damages shall be reduced by the material gain of the injured party arising from the damage caused to him, except if it is not justified, taking the circumstances of the case into account.”

Broad concept of compensation for the infringement of intellectual property rights, restitution, reimbursement of enrichment

The principle of reimbursement of enrichment obtained by infringement was defined by the Curia as follows:

Curia Pfv.20171/2017/9. *„As an **objective legal consequence** of patent infringement, the patentee may claim under Section 35(2)(e) of the Patent Act that the infringer should be ordered to pay back the enrichment obtained by the infringement. As a general rule, the restitution of the enrichment resulting from the infringement means **the deprivation of the pecuniary advantage (profit) that can be identified in the infringer's assets, i.e. the pecuniary compensation must create a situation on the side of both the rightholder and the infringer as if the infringement had never occurred.**”*

Broad concept of compensation for the infringement of intellectual property rights, restitution, reimbursement of enrichment

Summary of compensatory legal consequences pursuant to Hungarian IPR Acts :

Pecuniary loss, including the loss of material gain → legal consequence based on conduct attributable to the infringer, **criminal law** essentially follows this

Non-material harm → special personality rights, and not compensatory legal consequence, more advantageous for rightholders because of reversal of burden of proof

Restitution of **enrichment obtained by infringement** → a specific objective based legal consequence, irrespective of if the conduct is attributable to the infringer or not, no possibility of exculpation, not conditional upon proof of causal link

Definition of economic damage and unfair enrichment in Hungarian IPR legal practice

Fictitious royalty deduction using licensing analogy

- Lost material gain of injured party („*lost profit*”)
- Minimum value of enrichment obtained by infringer („*unfair profit*”)
- This is the most commonly used method for determining pecuniary loss in criminal cases
 - packaged software
 - filmsIn the above cases, established practice in Hungary.

Definition of economic damage and unfair enrichment in Hungarian IPR legal practice

Case-law on the use of licence analogy and fictitious licence fee

- Curia Pfv.20735/2012/7. „If his rights are infringed, the author shall be entitled under Section 94(1)(e) of the Copyright Act to claim, inter alia, the restitution of the enrichment achieved by the infringement. Enrichment for the purposes of this law includes the **amount of copyright royalties** and any pecuniary gain that may have been made from the unlawful use.”

Licence fee determined as % of revenue

- Curia Pfv.20975/2018/7. „The essence of the licensing analogy method is that the minimum enrichment achieved by the infringer is the royalty that the infringer would have had to pay to the rightholder if he had concluded a licence agreement with the rightholder for the exploitation. [...] The licence fee will be based on the net revenue generated by the unlawful activity, the amount of which will be determined by the licence fee rate as a percentage of the net revenue. [...] By determining the fee margin, the Regional Court of Appeal took into account the fact that case-law has established a fee margin of between 0.1 and 12%.”
- Budapest-Capital Regional Court of Appeal Pf.20394/2016/3. „The court of second instance took the average royalty rate of 5-10%, which is the average rate in the field of intellectual property, and based its assessment on the average rate of 8%, and determined the royalty to be paid by the infringing defendants as a restitution of enrichment, as set out above. [...]”

Fictitious licence fee fixed as a lump sum

- Curia Pfv.21366/2013/8. „In view of the above, the Curia, in agreement with the court of first instance, found that the defendant was liable to pay the plaintiff HUF 86,400,000 pursuant to Section 94(1)(e) of the Copyright Act, considering the total value of the software system, the number of users (864) and the amount of the fee per user (HUF 100,000).”

The amount corresponding to the licence fee may also be claimed in case of loss-making use

- Budapest-Capital Regional Court of Appeal Pf.20394/2016/3. „According to settled practice, royalties are due to the author even if the transaction is a loss-making one, so the claim for restitution of enrichment should be interpreted as at least a claim for a royalty for use, as is customary in the trade.”

Definition of economic damage and unfair enrichment in Hungarian IPR legal practice

Application of fictitious licence fee based enrichment

- mainly in the case of loss-making acts of exploitation
- or if determining the total profit of the infringer is too difficult a task to prove, in which case:
 - fictitious licence fee based enrichment
 - or
 - lumpsum damages, with a minimum of the licence fee foregone

Difficulty: it may only be applied, if the evidence has been attempted or is unlikely to be successful:

In the case of infringement of know-how, Section 9 of the Act on the Protection of Business Secret specifically provides that in the case of lumpsum damages, the amount of damages shall not be less than the amount of the lost licence fee

Definition of economic damage and unfair enrichment in Hungarian IPR legal practice

- Determination of fictitious licence fee based enrichment/damages:

Enrichment/damages

=

Relevant revenue

x

Licence fee key

x

Ratio of economic benefit attributable to the exploitation of IPR

Definition of economic damage and unfair enrichment in Hungarian IPR legal practice

Determination of the relevant revenue on which the calculation of the fictitious licence fee is based

- Taking into account the licensing conditions
- In the case of copyright works, trademarked products and products concerned by passing off, in general the total turnover excluding VAT
- In the case of patents, in general the turnover less direct commercial costs
- Guiding criteria are set out in the calculation method contained in Expert Opinion No 6/2012 of the Body of Experts on Industrial Property:

Licence fee projection basis = „net sales price”

Net sales price = gross sales price – direct sales costs

Direct sales costs most commonly:

- VAT
- customs duties, turnover taxes
- transport costs
- packaging cost
- storage cost
- insurance fee
- discounts

Definition of economic damage and unfair enrichment in Hungarian IPR legal practice

Examination of the turnover-enhancing, value-adding effects attributable to IPR, and of the **economic benefits attributable to the exploitation of IPR**

- **In patent infringement cases: „patent contribution ratio” – the ratio of economic benefit attributable to the exploitation of the patent**

Curia Pfv.20171/2017/9. „In calculating the extent of enrichment achieved by the infringement, the contribution of the invention to the useful result must be taken into account. According to settled case-law, the contribution of the invention to the exploitation result can be determined on the basis of the so-called "contribution ratio", based on technical and economic criteria. However, depending on the technical and economic importance of the solution, the value of the contribution ratio may differ from the value of the component part covered by the invention as a proportion of the product as a whole.”

- **In copyright and trademark cases, too, only the part of the enrichment that is attributable to the exploitation of the IPR in question is awarded**

Definition of economic damage and unfair enrichment in Hungarian IPR legal practice

Calculation of enrichment in excess of the fictitious licence fee

Basically, there are two ways :

- **Enrichment = exploitation revenue – relevant costs**
- **Calculation of substitution costs**

Definition of economic damage and unfair enrichment in Hungarian IPR legal practice

Relevant costs

Costs directly related to exploitation?

or

Also indirect costs (e.g. overheads, personnel costs)?

Budapest-Capital Regional Court of Appeal Gf.40195/2018/5. „[...] only that part of the proceeds can be considered enrichment, which does not include reasonable and direct costs, i.e. reasonable costs directly linked to the infringement must be deducted.”

Definition of economic damage and unfair enrichment in Hungarian IPR legal practice

Taking cost savings into account

Only the profit content of the revenue generated by the exploitation?

or

Also cost savings?

Curia Pfv.20735/2012/7. „And the use of the plans enriched the defendants. In order to carry out the investment, they did not have to have the permit plans drawn up again and did not have to obtain a legal permit to establish water rights on the basis of the new plans.”

Curia Gfv.30116/2013/6. „In the Curia's view, the courts in the case correctly interpreted the concept of enrichment achieved by the infringement under the Unfair Market Practices Act. This includes the savings made by the defendant as a result of the fact that the product had already become known because of the plaintiff's marketing work. [...] Nor does Article 45(2) of the TRIPS Agreement, to which the defendant refers, support the correctness of the defendant's interpretation of the law. It contains precisely that the courts should be empowered to order the infringer to pay costs, including, for example, appropriate lawyers' fees.”

Definition of economic damage and unfair enrichment in Hungarian IPR legal practice

What if there is no revenue from the exploitation but there are cost savings?

- Use of functional works in one's business operations : e.g. patent, software
- No direct profits are made.
- Can operating cost savings and replacement costs be recovered?

In the case of enrichment, proof of a causal link is not required

Budapest-Capital Regional Court of Appeal 10.Gf.40.385/2019/3-II „There does not need to be a direct causal link between the enrichment as result and the infringing conduct, and the obligation to reconstitute the enrichment is justified, if it can be established that the enrichment achieved is linked to the infringement.”

Thank you for your attention!

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