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Quantification of monetary relief

REPORT OF SWISS GROUP*

I. Current law and practice

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

In particular, please describe:

- a) the method used to determine the diversion of sales, i.e. the part of the infringing sales that the right holder would have made but for infringement;

Swiss intellectual property laws explicitly refer to the Swiss Code of Obligations ("CO") with respect to monetary reliefs (art. 73 of the Swiss Patent Act, ("PA"); art. 62(2) of the Swiss Copyright Act ("CA"); art. 55(2) of the Swiss Trademark Act ("TA"); art. 35(2) of the Swiss Design Act ("DA"); art. 9(3) of the Swiss Unfair Competition Act ("UCA")). Consequently monetary reliefs may be claimed based on damages (art. 41 CO), infringer's profit (art. 423 CO) or unjust enrichment (art. 62 CO).

The method used to determine the diversion of sales is based on damages (art. 41 CO). Damages arising from an infringement of IP rights are identical to any damages in civil law, which are defined as the involuntary decrease in net capital (actual damage); it corresponds to the difference between the claimant's hypothetical economic position in the absence of the wrongful conduct, and the claimant's actual position (difference theory) (ATF 129 III 331 consid. 2.1 and references). The claimant must prove that damage occurred (art. 42(1) CO). Consequently, and based on the strict approach of the Swiss Supreme Court, the plaintiff must prove both the existence and the amount of its loss in a sufficiently determined and concrete manner (ATF 127 III 365, consid. 2b and further references by BENOIT CHAPPUIS, Assessing Damage under the Discounted Cash Flow Approach (DCF): Sound Tool or Speculative Method? A Swiss perspective, RSDA 4/2012, 269 et seqq.). However, where the exact value of the damage cannot be quantified, the court estimates the value at its discretion in light of the normal course of events and the steps taken by the injured party (art. 42(2) CO). The damage is proven if the injured party provides sufficient evidence from which the court may conclude that the claimed damage has actually occurred (ATF 122 III 219 consid. 3a).

In light of the above definition of damage (actual damage and difference theory), only the loss incurred (*damnum emergens*) and the lost profit (*lucrum cessans*) are subject to damages. With regard to the loss incurred, the damage may be a result of market disturbances, because this may oblige the injured party to increase the public's knowledge or advertisement or because the company value/goodwill diminishes (LUCAS DAVID, SIWR I/2, Der Rechtsschutz im Immaterialgüter- und Wettbewerbsrecht, 3. ed., Basel 2011, 155). The damage may also be calculated on the basis of pre-trial costs (ATF 117 II 394, consid. 3a).

With regards to lost profit, there are three methods that can be used for determination. One method is to produce evidence of the actual damage by showing a decline in turnover which is linked to the IP infringement. A non-increase of the turnover may also be an indication, if it is demonstrated that the turnover did not increase the year the infringement took place, but generally increased by up to 10% every year for the previous ten years (JENNY, Die Eingriffskondiktion bei Immaterialgüterrechtsverletzungen – Unter Berücksichtigung der Ansprüche aus unerlaubter Handlung und unechter Geschäftsführung ohne Auftrag, Zurich 2004, 75). The claimant must show that, in the absence of IP infringement, he would have made those profits (e.g. that he would have sold his products instead of

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the infringer's products). The second method consists of relying on a reasonable royalty and the third method on infringer's profits to quantify the lost profit under art. 41 CO.

However, reasonable royalties can alternatively be claimed, according to the main doctrine (*cf.* question 2), under art. 62 CO as restitution for unjust enrichment and the infringer's profit under art. 423 CO as compensation based on agency without authority.

b) what level of profit margin is taken into account.

Only the net profit is taken into account; it is calculated according to the difference between the infringer's income and expenses. There is no specific level indicated (*cf.* question 3).

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

In particular, please describe:

a) the royalty base;

As mentioned above (*cf.* question 1a)), a reasonable royalty can either be claimed under art. 41 CO as method of quantifying lost profit or, according to the main doctrine, under art. 62 CO as restitution for unjust enrichment.

According to the Swiss Supreme Court, the reasonable royalty determination seems to be based on art. 41 CO as a method for quantifying lost profits (one can speak about a lost royalty fee). In the "Milchschaumer II" decision (ATF 132 III 379), the Swiss Supreme Court examined the reasonable royalty under art. 41 CO and stated that the claimant can only ask for a reasonable royalty if he shows that he would have effectively concluded a license agreement without the infringement (ATF 132 III 379 consid. 3.3.3. For an in-depth analysis of the decision, see BENHAMOU, Dommages-intérêts suite à la violation de droits de propriété intellectuelle, Etude de la méthode des redevances en droit suisse et comparé, 2013, 198 et seqq.). The Swiss Supreme Court concluded that the claimant failed to prove that a license agreement in the claimed amount would have been concluded *inter alia* because he had offered the infringer a license for a fee of CHF 90000 and the infringer refused such offer and subsequently started to infringe the patent. Furthermore, the Swiss Supreme Court indicated that the decisive criterion for determining the reasonable royalty is not an *appropriate* royalty but a *hypothetical* royalty which would have been agreed on when concluding a license agreement on the IP right in question (ATF 132 III 379).

According to the main doctrine, a reasonable royalty may be claimed under art. 62 CO as restitution for unjust enrichment (see for instance, ROBERTO VITO, Schadenersatz, Gewinnabschöpfung und Bereicherungsanspruch bei Immaterialgüterrechtsverletzungen, sic! 2008, Sondernummer, 23 et seqq.; JENNY, 183 et seqq.). Unlike the method of quantifying lost profit, the action for unjust enrichment is available irrespective of the fault of the infringer (*cf.* question 10). However, this method of calculation has not really been an issue until recently and is somewhat controversial.

First, there is a controversy with respect to the conditions under which the method is available under art. 62 CO, in particular whether it is available when a license agreement could not have been concluded in the absence of the infringement or, in the alternative, whether it is available only when a license agreement could have been concluded (BENHAMOU, 200 et seqq., indicating also that the fact that the Swiss Supreme Court neglected to examine the conditions under art. 62 CO in the "Milchschaumer II" case could be seen as a rejection of the method under art. 62 CO).

Second, there is a controversy with respect to the extent of the method, in particular whether the compensation is based on the objective value of the use equivalent to the reasonable royalties (objective approach) or on the profit acquired by the infringer (subjective approach). The doctrine and the Cantonal Court of St.Gallen follow the objective approach and consider enrichment to be equal to the license fee (Decision of the Cantonal Court of St.Gallen, sic! 1999, 631 consid. 2c).

Third, the extent to which a good-faith IP infringer is allowed to deduct certain expenses (e.g. overhead- and fixed costs) under art. 64 CO remains controversial. The rationale behind this provision is that the restitution to be paid by the IP infringer shall not lead to a decrease of its own assets. On the other hand, the application of this provision creates the risk that the IP infringer is able to cut the enrichment down to a negligible residual value (see RALPH SCHLOSSER, Commentaire romand, Propriété intellectuelle, Bâle 2013, LDA (CA) 62, 545 et seqq.).

So far, there has been no decision of the Swiss Supreme Court where the claim for a reasonable royalty under art. 62 CO has been examined and where it clearly pronounces itself for one or the other approach.

b) how relevant comparables among license agreements are defined;

A royalty can be quantified based on the royalty rate customarily owed or on a hypothetical royalty.

With respect to the royalty rate customarily owed, the applicable tariffs in the respective sectors or the principles for calculating compulsory licenses or compensation for employees' inventions may serve as indications (JENNY, 312). Comparables may also serve as indications by taking into account previous contracts with similar products or services. However, there is not much case law in Switzerland, which indicates how to quantify the royalty rate customarily owed (see BENHAMOU, 275 et seqq. for comparables and 313 for a chart summarizing the Swiss cantonal and Federal court rulings where the royalty method has been taken into account). In copyright, the basic royalty rate amounts to 10% of the sales price but may be higher or lower and varies from 1 to 19%. In patent law, royalty rates usually vary from 3 to 10% of the sales price and, in trademark law, between 1 to 5% of the sales price, which can even be up to 15% if well-known trademarks are involved (JENNY, 318). Furthermore, Swiss Courts are not opposed to applying concrete tariffs or industry recommendations, if available in the business sector concerned. So far, this has only been the case in copyright law (*cf.* Decision of the Cantonal Court of St.Gallen, sic! 2003, 706 et seqq.; ATF 122 III 463; CJ GE, SJ 1982 413, "KGB").

In the absence of relevant comparables, a reasonable royalty may be quantified based on a hypothetical royalty (*cf.* question I.2.c).

c) how a reasonable royalty is quantified in the absence of relevant comparables;

A reasonable royalty may be quantified based on the hypothetical royalty. The decisive criterion is what reasonable contractors would have agreed on with full knowledge of the relevant facts of the particular case. The quantification requires taking into account the principles governing the negotiations of a license agreement, which is a two-steps analysis: first, one shall determine what price a licensor would request and what price a licensee would be prepared to pay. Second, one shall compare these prices based on the bargaining power (BENHAMOU, 277). In trademark law, for example, the brand awareness and its reputation as well as the danger of confusion must be taken into account when quantifying a hypothetical royalty (JENNY, 313).

d) the nature of the royalty, e.g. lump-sum, percentage of revenues or profit, a mix?

Depending on the concrete needs of the parties, the reasonable royalty can be a lump-sum, a per-unit royalty, a percentage of revenues or profit, or a combination of the aforementioned (JENNY, 317). A lump-sum is convenient for contracts where the administrative expense shall be kept low, e.g. for timely limited licenses on copyright protected works. In patent law, where the success or failure of an innovation on the market is crucial, the payment of a mere lump sum is usually regarded to be to the detriment of one of the parties involved. Therefore, mixed royalties (usually a royalty consisting of a fixed amount and a performance-based variable component) are most common (HILTY, Lizenzvertragsrecht, Systematisierung und Typisierung aus schutz- und schuldrechtlicher Sicht, 486 et seqq.).

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

In particular, please describe:

a) the method to determine the profits resulting from the infringement, i.e. resulting from the use of the IP right;

b) what level of profit margin of the infringer should be taken into consideration.

As mentioned above (*cf.* question 1)a)), the infringer's profit can also be claimed under art. 423 CO. In this case, the infringer's profits are calculated on the basis of the infringer's net profits, which equal the gross profit plus interests less the costs relating to the realization of the profit. According to the jurisprudence and the doctrine, only the directly attributable costs to the infringement are deductible, such as the costs of materials, salary, production, distribution and advertising costs.

Costs which would have been paid even if no infringement had occurred, such as fixed or general costs, basically cannot be deducted when quantifying the infringer's profits. However, there is a debate over whether some of the general costs should also be deductible. Some scholars make the difference between variable costs, which shall be deductible, and non-deductible fixed or general costs (SCHLOSSER, 519). Other scholars renounce this subdivision and allow the infringed party to basically deduct any costs as long as they are causal for the infringement (BENHAMOU, 187). This approach is in line with the Swiss Supreme Court's decision "Resonanzetikette", in which it stated that only those costs which were exclusively incurred in relation to the production of the infringed products are deductible and that generally no costs exist that are not deductible as long as they were necessary for realization of the profit (ATF 134 III 306 consid. 4.1.4 et seq.).

4. What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty:

- a) in relation to conveyed goods;
- b) where the infringing product forms part of a larger assembly; or
- c) where the IP rights found infringed are routinely licensed together with other IP rights as a portfolio?
- d) when the damage suffered by the right holder is related to competing goods which do not implement the infringed IP rights?

The Swiss Supreme Court has ruled that a reasonable royalty can only be requested by the right holder based on damages (art. 41 CO) if he can show that the defendant would have entered into a license agreement with the right holder (*cf.* question 2a). This is a major obstacle to applying reasonable royalties. The right holder usually relies on actual loss (art. 41 CO) although he has to provide evidence for the fault of the infringer. Relating to a), b) and d), the right holder is entitled to claim lost sales of ancillary products which may comprise equipment, spare parts, etc., which the right holder ordinarily sells alongside the protected article, and which are not covered by the IP right, irrespective of whether the IP right is a patent (HEINRICH, PatG/EPÜ PA 73 N 35), a trademark or a design right. When a number of licensing agreements exists, concluded by the right holder with third parties according to c), it is considered permissible that the right holder requests a reasonable royalty on the basis of unjust enrichment law (art. 62 CO) (CALAME/STERPI, Patent Litigation, London 2012, 422).

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

They are the same in principle, namely with respect to exclusive licensees. Indeed, the calculation of the damages remains the same. There is a difference with respect to the standing to sue depending on the nature of the license. In more detail:

The right holder and the licensee are in a different position when it comes to claiming damages depending on the nature and scope of the license. The various statutes (art. 75 PA; art. 34(4) DA; art. 55(4) TA; art. 62(3) CA) explicitly permit the so-called "exclusive licensee" to claim damages. The notion of exclusive licensee under these provisions covers both sole licenses as well as exclusive licenses. However, the exclusive licensee may only claim damages if the licensed rights are impacted by the infringement. If these conditions are met, the exclusive licensee is in much the same situation as the right holder as regards the rules and methods addressed in questions 1 through 4 above.

Non-exclusive licensees were not granted similar statutory rights out of fear of conflicting or overlapping claims. Nonetheless, non-exclusive licensees are entitled to intervene in proceedings to claim damages; such damages must however be particularly and directly hit by the infringement, thus justifying the non-exclusive licensee's intervention (German text of the Federal Council Message on the PA 2005, 127).

6. What kinds and types of evidence are accepted for proving:

- a) the quantum of actual loss;
- b) the quantum of reasonable royalties.

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

In general, all kinds and types of evidence are accepted, including expert accounting evidence and past licensing practices.

Claimants will usually rely on the general concepts of torts in their attempt to prove the quantum of their actual loss, because of the absence of specific statutory provisions.

In particular, article 42(2) CO allows the court to estimate the quantum when the exact value of the damage or reasonable royalties cannot be established. To trigger this provision, the plaintiff must bring forth sufficient evidence to convince the court to estimate the quantum of the actual loss. Such evidence must not only be direct, but can be an array of indirect evidence (decision of the ATF 132 III 379, "Milchschaumer II"). Consequently, the court will rely on probability and experience rules (e.g. in light of the normal course of events and the steps taken by the injured party). Such indirect evidence may namely be a decrease in the right holder's turnover in close time proximity to the infringement, the infringer's profits, the duration of the infringement, etc. These assessments may be provided in various forms, for instance through expert advice, accounting books, and so forth.

More precisely, the Swiss Civil Procedure Code (CPC) allows for rather wide-ranging evidence: testimony, physical records, inspection, expert opinion, written information, examination of the parties (art. 168 CPC). In that respect, expert accounting evidence on past licensing practices is permissible evidence; however, in this situation, the expert must be appointed by the court. Indeed, though the parties are free to provide their own expert report such a contribution would only amount to a private pleading without benefiting from the additional weight of evidence under the CPC (PETER HAFNER, in: Spühler/Tenchio/Infanger, Basler Kommentar, Schweizerische Zivilprozessordnung, Basel 2013, CPC 168 N 4).

When the court requires the defendant to provide specific items of evidence, it is not uncommon to raise a business or trade secrets defense. The defendant thus attempts to avoid having to produce evidence by claiming it is covered by a trade secret. Such a defense is however very limited as the courts, after balancing the interests of the involved parties, may implement measures to avoid any infringement of such secrets (art. 156 CPC, also art. 68 PA), for instance by redacting the names of third parties. Thus, business or trade secrets is not a solid defense against the counterparty's right to information.

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

Switzerland does not have a general discovery process. But with IP infringements there is a specific two-step approach ("Stufenklage") available (art. 85 CPC), which allows the right holder to get information from the infringer on the quantum of monetary compensation before the right holder has to finally specify its claim on monetary relief later on in the litigation.

Quite often courts will decide IP cases on infringement first, before they decide on monetary relief. The parties can influence the course of the litigation with their prayers for relief.

It is possible to separate the proceedings into several interdependent stages. As a first step, the right holder can seek a partial ruling on the production of information and documentation from the infringer, as well as the accounting of books. In a second step, the right holder can claim monetary relief based on one of the three available methods, i.e. damages (art. 41 CO), infringer's profit (art. 423 CO) or unjust enrichment (art. 62 CO). Hence, plaintiff will typically only quantify his monetary compensation claim after the abovementioned information is obtained through this first-step ruling providing information and accounting of books.

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

Swiss Patent Law stipulates (art. 73(1) PA) that damages are to be paid if any of the circumstances giving rise to liability are met (art. 66 PA). No difference is made between direct unlawful use of a patented invention and contributory infringement (art. 66(d) PA) when a person abets inter alia direct in-

fringement, participates in it, or aids or facilitates the performance of such an act. However, Swiss Patent Law requires that a direct patent infringement takes place (ATF 129 III 588 “Stickmaschine”; HEINRICH, PatG/EPÜ, PA 66 N 42–44). Decisions of the Swiss Federal Patent Court do not apply different quantification methods relating to damages for direct infringement and damages for contributory infringement.

Swiss Trademark Law (art. 13 TA) mentions affixing the sign to goods (direct use) and to packaging or otherwise in the course of trade (indirect use) within the same list.

Independent from the kind of IP right it is possible as a matter of principle to claim the entire loss from the contributory infringer.

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

- if an injunction has also been granted;
- only if an injunction has not been granted; or
- not at all?

Forward-looking damages are available, regardless of whether an injunction has been granted or not.

In the event of infringement, various civil actions are available to the claimant. Injunctions may be requested, i.e. the cessation of an existing infringement or the prohibition of an imminent infringement (art. 72(1) PA; 55(1)(a) TA; 62(1)(a) and (b) CA) (DAVID, 282 et seqq). Monetary reliefs may also be requested (art. 55(2) TA; 62(2) CA; 73(1) PA), i.e. compensation for damages (art. 41 CO), infringer's profits (art. 423 CO) and unjust enrichment (art. 62 CO) (DAVID, 105). These actions are not per se mutually exclusive. Consequently, the request for an injunction does not preclude the action for monetary compensation.

No distinction should be made between current damage (damage that has already occurred as of the date of the judgement of the cantonal court of last resort) and future damage (damage that occurs after such a judgement is made). There is little specific IP case law relating to future damage. However, case law in tort shows that the elements (current and future damage) are identical and that the principles for calculating the damage are the same (for these principles cf. Question I.1.a), the only difference being the moment at which the damage arose (CHAPPUIS, 272 and references). Future damage must be foreseeable with the same degree of certainty as current damage (ATF 116 II 441, consid. 3aa = JdT 1991 I 166). Consequently, the action for monetary reliefs may cover both the current and future damage, provided that they are foreseeable.

10. Is the bad faith of the infringer taken into account in the assessment of the damage? If so, how is bad faith defined and is it possible to infringe a patent in good faith?

The conditions of compensation for damages (art. 41 CO) are: an infringing activity, a damage suffered by the claimant, a causal connection between the infringing activity and the damage, and fault of the infringer. The conditions of infringer's profits (art. 423 CO) are: an infringing activity, the profits made by the infringer, a causal connection between the illegal activity and the profits and bad faith of the infringer. Finally, the action for unjustified enrichment (art. 62 CO) is available irrespective of the fault or bad faith of the infringer.

Consequently, the fault or bad faith is a condition of action for monetary reliefs (excluding the action for unjustified enrichment) and shall be evidenced by the claimant (R. SCHLOSSER, Commentaire romand de propriété intellectuelle, Bâle 2013, LDA (CA) 62 N 33; F. DESSEMONTET, Le droit d'auteur, Lausanne 1999, N 802). In the event of slight negligence of the infringer, the court may decide to reduce the damages (art. 43(1) and 44(2) CO). Similarly, in the event of concurrent negligence of the plaintiff, the court may decide to reduce the damages (art. 44(1) CO), for instance when the plaintiff delayed action for preliminary injunctions without legitimate grounds (CJ GE, sic! 2000, 596 consid. 7 “Crazy Horse”, quoted by SCHLOSSER, LDA (CA) 62 N 41).

11. How do courts take into account the damage suffered because of the time between the date of the infringing acts and the date of the award of damages taken into account?

The relevant moment for determining the damage is the date of the award of damages. On that date, the Court shall however take into account all damaging effects, whether or not already incurred, terminated or still in progress. Indeed, Swiss law enables courts to take into account various points of time (the date of the award of damages; the date of the infringing acts; the day on which the damage materialized) (B. CHAPPUIS, *Le moment du dommage*, Zurich 2007, 146 et seqq.) and the Court shall take into account any damaging effects between the date of the infringing acts (e.g. the marketing value of the assets of the injured party) or after the award of damages and that will materialize in the future (CHAPPUIS, 147).

As indicated above (*cf.* question I.9), no distinction should be made between current and future damage. They are identical other than the one difference as to the moment at which the losses arise. Additionally, the harmed party must prove both the existence and the amount of its loss, but the court has discretionary power to lighten the burden of proof, provided however that the injuring effect is difficult to establish and that the plaintiff has collected all the evidence at its disposal. Consequently, future damage that does not exist at the moment of the judgement will be compensated, in addition to the current damage, provided it is foreseeable.

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

12. Are there aspects of these laws that could be improved?

Yes, the group is of the view that aspects could be improved. In Swiss law, monetary reliefs are often rejected for lack of evidence of injury, of enrichment or of a quantifiable gain (based on a strict approach of the difference theory), including the royalty method when the plaintiff cannot prove its intention or ability to enter into a licensing agreement with the infringer or a third party. Consequently, Swiss law does not necessarily comply with its obligations under the TRIPS Agreement.

The group is of the view that the aspects to be improved could be a slight relaxation of the difference theory (legitimated on the basis of the specific nature of IP and of the application of tort law tailored to IP matter), which would allow courts to apply the royalty method more broadly (*i.e.* also when the injured party has neither the intention nor the ability to enter into a licensing agreement).

13. If the Court determines a reasonable royalty by reference to a hypothetical negotiation, should:

- the Court's assessment of the hypothetical negotiation be under an assumption that all the IP rights in suit are valid and infringed?
- the Court first be required to find that all the IP rights in suit are valid and infringed?

According to the general principles of tort law, monetary reliefs in the form of a reasonable royalty are available in the event of a valid IP right and of an IP infringement. However, we do not consider this question to be highly relevant from a Swiss perspective, as when a monetary claim becomes an issue, the validity of the IP rights in suit and the infringement of the same will usually already have been assessed by the court (particularly if the specific proceeding is conducted in a two-step approach ("Stufenklage")).

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

When the royalty rate customarily owed is not available (*i.e.* based on comparables or the applicable tariffs in the respective sectors), the reasonable royalty shall be determined by reference to a hypothetical negotiation (*cf.* Question I.2 b) and c)). The criteria is not what would have been accepted by the infringer or the plaintiff, but what "reasonable parties" would have agreed on based on all the circumstances (e.g. the market value of the IP right, the research and development costs, the marketing efforts) (JENNY, N 598; BENHAMOU, 277). Also, expert opinions on licensing practices in the relevant industry and royalty rate appraisals by accounting firms should be considered as relevant evidence.

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

The quantification of damages does not depend on injunctive relief: both claims are not per se mutually exclusive: injunctions look at the future and require in particular no fault on the infringer's part but a legitimate interest of the claimant (*i.e.* possible risk of repetition the infringing act or of committing such an infringing act), while damages look at the past, aim at compensating a prejudice suffered and require in particular the proof of damage suffered (based on the difference theory). Consequently, damages are available, as long as the harmed party can prove both the existence and the amount of its loss in a sufficiently determined and concrete manner (*cf.* question 9).

III. Proposals for harmonisation

16. Is harmonisation of the quantification of damages desirable?

The group is of the view that there is no need for full harmonization of damages, as the concept of damages varies from one jurisdiction to another (from specific regimes of damages tailored to IP with over-compensatory functions, to the general tort law principles with a strict limitation to compensatory functions) and as such conceptions may be deeply enshrined in each jurisdiction's legal system. However, there shall be a minimum harmonization in the sense that courts shall award at least (minimum) damages based on the royalty method in case of willful or negligent infringement, in order to take into account the specific nature of IP and to comply with the TRIPS Agreement (in particular art. 45.1 TRIPS and art. 41.1 TRIPS) (see Benhamou, N 654).

If yes, please respond to the following questions without regard to your Group's current law.

As explained above (*cf.* question 14), the courts shall award minimum damages based on the royalty method in case of willful or negligent infringement.

Even if no, please address the following questions to the extent your Group considers your Group's current law could be improved.

In Swiss law, monetary reliefs are often rejected for lack of evidence of an actual damage, an enrichment or infringer's profits (based on a strict approach of the difference theory):

- Regarding the compensation of actual damage (art. 41 CO), it requires a market disruption, *i.e.* that customers have been genuinely deceived with regard to the quality of the counterfeit product, and the lost profits require that the good was sold in sufficient commercial quantities as well as being substitutable. The royalty method applies, according to the Swiss Supreme Court and based on art. 41 CO, only if a licensing agreement would effectively have been concluded in the absence of infringement.
- Regarding the defendant's profits (art. 423 CO), such profits require a delicate calculation of the deductibility of fees and the factors affecting causation.
- Regarding unjustified enrichment (art. 62 CO), the enrichment requires expenditures made in the ordinary course and on the basis of life experience, as well as a careful calculation of objective value.

The group is of the view that such difficulties are not desirable, in particular the fact that the regular rejection of monetary relief does not necessarily comply with the TRIPS Agreement, and that the courts shall at least award (minimum) damages based on the royalty method in case of willful or negligent infringement. Such method has a sufficient legal basis under the current law but requires a certain relaxation of tort law (in particular the difference theory):

- From the perspective of Swiss law, a possible legal basis is the unjust enrichment (art. 62 CO), as the Swiss Supreme Court maintains a strict interpretation of art. 41 CO which does enable the royalty method and as art. 62 CO only requires to redefine the notion of enrichment (something that is already recognized by some courts and the majority of legal scholars).
- From the perspective of adapting Swiss law to the neighboring countries of the European Union and to the minimum standards of the TRIPS Agreement, the legal basis to be preferred is the compensation of actual prejudice (art. 41 CO), because the Directive 2004/48/EC and its transposition

link this method to the actual damage, while simultaneously expanding the concept of damage by taking into account the specific nature of IP.

Our preference would be for the legal basis of art. 41 CO. It enables courts to limit the royalty method to cases of IP infringement – or possibly to cases of goods with similar characteristics (ubiquitous, intangible, non-consumable) such as image rights or business secrets – contrary to art. 62 CO which risks expanding the method to all cases of undue use of a good. It allows one to maintain a certain flexibility in one's calculations and to take into account the concept of fault, which appears necessary in light of the increasingly controversial nature of IP and complex nature of the products it covers. Finally, it fits into the expansion of the concept of damage which is the object of several developments (exceptions to the difference theory as well as general and abstract presumptions under copyright law) (Benhamou, N 649 et seqq. and references).

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

Compensation for actual loss is very difficult to obtain under the current practice of the Swiss courts, which puts the burden of the quantification of the damage entirely on the holder of the infringed IP rights. For this reason, claiming lost profits requires that the plaintiff discloses its profit margin. Because of these hurdles, claiming lost profits is normally not the IP holder's preferred option.

Notwithstanding of the aforementioned, the choice of the underlying basis of the claim to be applied in a concrete case heavily depends on the available means of evidence.

18. Please propose the principles your Group considers should be applied when quantifying reasonable royalties, explaining in particular:

The group is of the opinion that the quantification of a hypothetical royalty should always focus on what reasonable contracting parties would have agreed on with full knowledge of all circumstances, which are suitable to influence the amount of the license fee. This approach necessarily means that the quantification of reasonable royalties must be assessed on a case by case basis.

- a) the relevance, if any, of a hypothetical negotiation and whether the hypothetical negotiation should be under the assumption that the IP rights being negotiated were or were not found valid and infringed;

As already mentioned (*cf.* question I.2.c) a hypothetical negotiation usually comes into play in the absence of relevant comparables. Based on the fact that a hypothetical licensee would not be willing to pay for the use of an invalid (or not infringed) IP right, we are of the opinion that the hypothetical negotiation should necessarily be under the assumption that the IP rights being negotiated were found valid and infringed.

- b) the relevance, if any, of prior licensing practices or prior going rates for licensing the IP rights in suit; and

The group agrees that the principle set out in the patent-related US decision *Georgia-Pacific Corp. v. United States Plywood Corp.*, which established that the licensor's established policy and marketing program to maintain its monopoly by not licensing others to use his invention might be relevant to determine the amount of the hypothetical license fee. In our view, an established restrictive license policy by the IP right holder shall necessarily lead to an increase of the license fee to be paid by the infringer of the IP rights in suit.

Furthermore, prior going rates for licensing the IP rights in suit are deemed to be relevant, as they provide a rough indication of what is customary in connection with the IP rights in suit. However, the existence of prior going rates shall not lead to a factual obligation to contract of the IP owner.

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

Prior licensing practices or prior going rates for licensing other IP rights of third parties should only be considered relevant if they are similar to the IP rights in suit.

19. Please propose, in relation to actual loss and reasonable royalties:

- a) how conveyed goods should be dealt with;
- b) how competing goods of the right holder, not making use of the patent, should be dealt with; and
- c) how damages should be determined when the infringing product forms part of a larger assembly.

Since compensation for actual loss requires – according to the current practice of the Swiss courts – that the plaintiff discloses its profit margin, the burden becomes even more difficult in view of conveyed goods. The loss due to conveyed sales has to be taken into account, when the non-protected parts drove customer demand and the infringing and non-infringing products form a functional unit.

Competing goods of the right holder should not regularly be taken into account in relation to actual loss.

The loss due to sales of the entire assembly has to be taken into account, when the protected parts drove customer demand to acquire the assembly.

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

According to Swiss law, actions in Switzerland relating to indirect infringement, being considered to be contributory infringement, are not reprehensible if no direct infringement takes place in Switzerland. Therefore, in order to award damages for indirect/contributory infringement in the circumstances mentioned in the question, the way indirect/contributory infringements are handled in the country has to be changed first by the lawmaker.

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

The alternative or cumulative relation between damages and account of profits is of interest.

Additional factors, such as “moral damages” should also be taken into account. Under Swiss law, moral damages pursuant to art. 49 CO may also be claimed by legal entities which benefit from personality rights. However, moral damages require a severe infringement of the personality of the right holder, which may be difficult to prove and are distinct from the actual damage incurred. Consequently, the relation between these moral damages and the actual damage incurred should be clarified.

Additional economic methods should also be considered to quantify a reasonable royalty (see for instance, BENHAMOU, 286 et seqq., suggesting to combine standard methods of economic evaluation with the economic royalty rate method and the Financial Indicative Running Royalty Model FIRRM).

Summary

In Swiss law, monetary reliefs are often rejected for lack of evidence of an actual damage (art. 41 CO), an enrichment (art. 62 CO) or infringer's profits (art. 423 CO) (based on a strict approach of the difference theory). Regarding the compensation of actual damage (art. 41 CO), it requires a market disruption and the royalty method applies, according to the Swiss Supreme Court, as a lost royalty fee only if a licensing agreement would effectively have been concluded in the absence of infringement. Regarding the defendant's profits (art. 423 CO), such profits require a delicate calculation of the deductibility of fees and the factors affecting causation. Regarding unjustified enrichment (art. 62 CO), the enrichment requires expenditures made in the ordinary course and on the basis of life experience, as well as a careful calculation of objective value. The group is of the view that such difficulties are not desirable, in particular the fact that the regular rejection of monetary relief does not necessarily comply with the TRIPS Agreement, and that the courts shall at least award (minimum) damages based on the royalty method in case of willful or negligent infringement. Such method has a sufficient legal basis under the current law but requires a certain relaxation of tort law (in particular the difference theory). The group holds also the view that additional economic methods should be considered to quantify the damages, in particular the reasonable royalty (such as the economic royalty rate method and the Financial Indicative Running Royalty Model FIRRM).

Zusammenfassung

Im Schweizer Recht werden geldwerte Ansprüche häufig aufgrund des Fehlens von Beweisen eines tatsächlichen Schadens (Art. 41 OR), einer ungerechtfertigten Bereicherung (Art. 62 OR) oder eines Verletzergewinnes (Art. 423 OR) zurückgewiesen (basierend auf einem strengen Ansatz der Differenztheorie). Für die Kompensation eines tatsächlichen Schadens (Art. 41 OR) wird eine Zerstörung des Marktes gefordert und die Lizenzberechnung ist gemäss dem Schweizerischen Bundesgericht als eine verlorene Lizenzgebühr nur dann anwendbar, falls eine Lizenzvereinbarung in Abwesenheit einer Verletzung effektiv abgeschlossen worden wäre. In Bezug auf die Gewinne des Beklagten (Art. 43 OR) ist eine delikate Berechnung der Absetzbarkeit von Gebühren und der Berücksichtigung von Faktoren, die in einem Kausalzusammenhang stehen, erforderlich. Die ungerechtfertigte Bereicherung (Art. 62 OR) erfordert die Bereicherung im ordentlichen Verlauf und auf der Basis der Lebenserfahrung vorgenommene Ausgaben, als auch eine sorgfältige Berechnung des objektiven Wertes. Die Gruppe ist der Auffassung, dass solche Schwierigkeiten nicht wünschenswert sind, insbesondere im Hinblick darauf, dass die regelmässige Zurückweisung von geldwerten Ansprüchen nicht notwendigerweise im Einklang mit dem TRIPS-Übereinkommen steht, und dass die Gerichte mindestens einen (minimalen) Schadensersatz basierend auf der Lizenzpreisanalogie im Falle von vorsätzlicher oder fahrlässiger Verletzung sprechen sollten. Ein solches Verfahren hat eine ausreichende gesetzliche Grundlage unter dem heutigen Recht, erfordert aber eine gewisse Lockerung in Bezug auf das Deliktsrecht (insbesondere die Differenztheorie). Die Gruppe ist auch der Ansicht, dass zusätzliche ökonomische Verfahren eingesetzt werden sollten, um die Schäden zu quantifizieren, insbesondere eine angemessene Lizenzgebühr (wie das ökonomische Lizenzpreisanalogieverfahren und das Financial Indicative Running Royalty Model FIRRM).

Résumé

En droit suisse, les actions réparatrices sont souvent rejetées, faute de preuve d'un dommage (art. 41 CO), d'un enrichissement (art. 62 CO) ou d'un gain quantifiable (art. 423 CO) (selon une approche stricte de la théorie de la différence). S'agissant de l'action en dommages-intérêts (art. 41 CO), le dommage suppose une réelle perturbation du marché ou une exploitation du bien avec des capacités commerciales suffisantes et la méthode des redevances s'applique, selon le TF en tant que redevances manquées, uniquement lorsqu'un contrat de licence aurait été effectivement conclu en l'absence de la violation. S'agissant de l'action en remise du gain (art. 423 CO), le gain suppose une délicate appréciation de la déductibilité des frais et des facteurs agissant sur la causalité. S'agissant de l'action en enrichissement illégitime (art. 62 CO), l'enrichissement suppose des dépenses faites selon le cours ordinaire des choses et l'expérience de la vie et un calcul délicat de la valeur objective. Le groupe est d'avis que de telles difficultés ne sont pas souhaitables. Il considère en particulier que cette pratique conduisant au rejet systématique des dommages-intérêts ne respecte pas nécessairement les obligations découlant de l'Accord ADPIC et que les tribunaux devraient allouer (au minimum) des dommages-intérêts calculés selon la méthode des redevances en cas de violation intentionnelle ou négligente. Une telle méthode repose sur un fondement légal suffisant, mais requiert un certain assouplissement du droit commun (particulièrement de la théorie de la différence). Le groupe est également d'avis que le calcul des redevances de licence, et plus généralement des dommages-intérêts, pourrait s'effectuer également à l'aide des méthodes économiques et fiscales, telles que les méthodes économiques du taux de la redevance (Royalty Rate Method) et de la Financial Indicative Running Royalty Model.