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# AIPPI Q279-SGL-G-2021 – Reasonable awareness in compensation for infringement of IP rights

Report of the Swiss Group

### I. Current law and practice

#### 1. Do the following conditions play a part in relation to the assessment of damages? If YES, please explain.

##### a) the objective or subjective knowledge of the infringer,

Both the objective and the subjective knowledge of the infringer can play a role in the assessment of compensation for damages. Under Swiss law, damage claims require, *inter alia*, fault of the infringer. Fault is given if the infringer caused the damage either wilfully or through negligence. If the infringer had subjective knowledge of the infringement, one will have to assume that he/she caused the damage wilfully and is therefore, in principle, liable. On the other hand, this does not mean that lack of subjective knowledge would exclude liability for damages.

Under Swiss law, negligence is assessed from an objective point of view. Accordingly, when assessing negligence, one would have to take into account the specific behaviour of the infringer under the specific circumstances and to apply thereby general standards. The standards are higher for manufacturers, general importers and distributors as compared to smaller retailers. By way of example, objective knowledge was decisive in a case where the infringer of a registered trademark allegedly relied on a license that had been granted to him by a board member of the trademark owner who then turned out not to have had the authority to grant such license. The courts held that the infringer acted with negligence as he should have known that consent of the trademark owner's General Assembly was required for granting the alleged license.

##### b) the beliefs/opinions of the infringer, and/or

Under Swiss law, fault does not require that the infringer of a third party's IP right was aware that he/she infringed that IP right. There is, in principle, no defence in case the infrin-

ger erroneously believed that he/she was not infringing. However, the principle is not absolute by nature and exceptions to it are acknowledged. A trade mark infringer may not have acted at fault if he/she (e.g., upon receipt of a warning letter) very diligently assessed the legal situation and thereby came to the genuine but wrong conclusion that he/she was not infringing. Expert advice from a trademark or patent lawyer wrongly confirming the non-infringement does not necessarily exclude that the infringer acted with negligence.

##### c) the publication of the scope of the IP right in general or at a particular time (e.g. the publication of the claims of a patent amended in the course of litigation).

In principle, the Swiss IP registers do not *per se* create an assumption that their contents are known to the public.

Further, to the extent that a potential infringer rightly assumes the invalidity of a published patent, he/she does not have to examine to what extent the invalidity maybe overcome through limitations of the patent claim resulting from the patent description (Article 24(c) of the Patent Act).

In the relevant IP rights acts, there are no provisions that would create an assumption that the contents of IP registers are known. Nevertheless, in practice, the publication of the scope of a design, a trade mark or a patent can play a significant role. As far as trademarks are concerned, Swiss courts tend to expect from most market players that they have consulted the trademark register prior to launching a new product, and the courts qualify it as negligence, or even as eventual intent, if they fail to do so. This is particularly the case where infringers are internationally active companies or if they file applications for their own trademarks. On the other hand, small or medium-sized companies are less likely to be treated as negligent infringers if they have failed to consult the trademark register.

Members of the working group: Fabian Altmann, Cyrill Rieder, Joseph Schmitz, Roger Staub (Lead).

## 2. Are punitive damages awarded and if YES, in what circumstances?

In principle, no punitive damages are awarded under Swiss law. To be successful, a damage claim in IP infringement cases always requires an actual damage in terms of an involuntary economic loss (i.e., an increase of liabilities, a decrease of assets or a loss of profits). Damage awards are capped by such actual damage suffered by the right holder. For IP infringement cases, the Swiss Federal Supreme Court has explicitly rejected the notion of so-called normative damages, which would not require an involuntary economic loss.

There is one minor exception to this principle in the area of collective exploitation of copyrights. Some tariffs of collection societies provide for the award of double damages under certain circumstances (e.g., in some cases where the users fail to request the necessary consents from the collection societies or where users provide them with inaccurate information about their use of copyright protected works covered by the corresponding tariffs). However, it may be arguable whether such double damages really qualify as punitive damages, since the legitimacy of these tariff surcharges is justified by the courts with generally increased legal expenses of the collecting society in such cases.

## 3. Are damages reduced below the level required to compensate the loss suffered by the right holder, and if YES, in what circumstances?

The starting point of the calculation of damages to be awarded is the actual damage incurred by the IP right owner (or, as the case may be, to the exclusive licensor) from the infringer. Damages are thus in any case limited to the actual loss suffered by the right holder or the exclusive licensee.

Based on Article 43(1) of the Swiss Code of Obligations, the courts, when awarding damages, should take into account both the relevant circumstances and the level of the infringer's fault. The relevant circumstances to be taken into account may include the measures taken, or not taken, by the right holder to reduce the damage. If he or she did not take sufficient measures, the court has the possibility to reduce the damages accordingly.

However, in practice, we have never seen cases where Swiss courts have reduced damage claims due to IP right infringements on the basis of Article 43(1) of the Swiss Code of Obligations. Once the requirements of a damage claim are fulfilled, the courts grant compensation for the entire amount of damage that has been established as a result of the infringement. In practice, the problem lies much more in establishing actual damage.

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

### 4. Could your Group's current law or practice relating to the role of knowledge in relation to damages be improved? If YES, please explain.

The Swiss Group is, in principle, of the opinion that the current law and practice of Swiss courts is adequate. Some members of the Group take the view, that courts, in some cases, should differentiate more between the various levels of fault when determining the amount of damages to be compensated.

### 5. Should the recovery of damages depend, or not depend, on the knowledge (subjective or objective) of the infringer? Please explain.

The Swiss Group is unanimously of the opinion that the knowledge of the infringer should always be required for the recovery of damages. This is one of the basic principles of Swiss tort law. However, both subjective and objective knowledge should be considered.

### 6. Should damages be elevated so as to discourage future infringement by:

- a) an infringer, when a court has established infringement and awarded an injunction against that infringer,

No. It is a basic principle of Swiss tort law in general that awarded damages should not exceed the actual damage suffered by the infringed right holder. The Swiss Group is of the opinion that this should also apply in case of IP right infringements and that there is no room for elevation of damages for the mere purpose of discouraging future infringements. Rather such discouragement is one of the purposes of the criminal sanctions provided for by all Swiss IP right acts and by the civil procedural sanctions which may be imposed on the infringer in case the infringer does not abide by an injunction.

- b) an infringer, when a court has established infringement but not awarded an injunction against that infringer,

NO; see above 6.a).

- c) third parties, when a court has not yet established infringement by such third parties or the existence of any potentially relevant third parties.

NO; see above 6.a). (except civil procedural sanctions in case of failure to abide by the injunction).

**7. Are there any other policy considerations and/or proposals for improvement to your Group's current law falling within the scope of this Study Question?**

Apart from what has been expressed above, the Swiss Group is of the opinion that no improvement is needed.

**III. Proposals for harmonisation**

*Please consult with relevant in-house/industry members of your Group in responding to Part III.*

**8. Do you believe that there should be harmonisation in relation to the role of knowledge in relation to damages? Please answer YES or NO.**

NO. The role of knowledge in relation to damages is deeply intertwined with other aspects of national law in general and, in particular, with the principles of tort law of each individual jurisdiction. These general principles of tort law are not internationally harmonised and express national legal traditions. Any harmonisation would thus result in disruptions within the national law principles.

*If YES, please respond to the following questions without regard to your Group's current law or practice. Even if NO, please address the following questions to the extent your Group considers your Group's current law or practice could be improved.*

**9.**

- a) Should the knowledge (subjective or objective) of the infringer affect the recovery of damages? Please answer YES or NO

YES.

- b) If the answer to 9)a) is YES, should the knowledge be (you may tick one or, if you think either suffices, both boxes)

- subjective  
 objective

- c) How should such knowledge (for example) be established? Please tick all that apply:

- by the right holder?  
 by the infringer? (however, the burden of proof is on the right holder but the infringer has also the possibility to submit evidence supporting his alleged lack of knowledge)  
 by evidence of the circumstances of the infringement?  
 by evidence of the state of mind of the infringer? (however, only by indirect evidence such as letters, witnesses etc.)  
 referring only to facts available to any person?

- referring to information available only to the infringer (provided there is no fishing expedition)?

- d) How should such knowledge affect the recovery of damages?

Subjective or, at least, objective knowledge should be required. The level of knowledge may, in some cases, affect the amount that can be recovered.

**10. Can or should damages to compensate the right holder:**

- a) only be awarded where the infringer has the level of knowledge specified in Article 45(1) TRIPs

YES.

- b) nevertheless be awarded if the infringer did not have the level of knowledge specified in Article 45(1) TRIPs.

NO.

**11. What, if any, change in the level of damages or the assessment of damages is appropriate, if the infringer:**

- a) had no subjective knowledge, prior to the litigation, of the existence of the IP rights that were found infringed,

At the judge's discretion, the level of damages can, but not necessarily must, be limited to the time period during which the infringer had no subjective knowledge.

- b) had no subjective knowledge, prior to the litigation, of the scope of the IP rights that were found infringed because the IP right was not published in a language which is (or should be) understood by the infringer,

At the judge's discretion, the level of damages can, but not necessarily must, be limited to the time period during which the infringer had no subjective knowledge.

- c) had no subjective knowledge, prior to the litigation, of the scope of the IP rights that were found infringed because the IP right was amended in the course of litigation resulting in its scope changing,

No damages are due in case such amendments result from the patent description.

- d) had a subjective belief prior to the litigation (whether gained through legal advice or otherwise) that the IP rights in question would or would not be infringed,

At the judge's discretion, the level of damages can, but not necessarily must, be limited to the time period during which the infringer had no subjective knowledge.

- e) had not undertaken searches prior to launching a new product, to determine if the new product would or might infringe,

At the judge's discretion, depending on the infringer's size and business experience, the level of damages can, but not necessarily must, be reduced.

- f) had undertaken searches prior to launching a new product, to determine if the new product would or might infringe, and those searches erroneously indicated no infringement.

At the judge's discretion, depending on the other circumstances, the level of damages can, but not necessarily must, be reduced.

**12. If the grant of punitive or exemplary damages (being damages greater than those required to compensate the right holder) is permitted, please indicate whether such damages should depend on the knowledge of the infringer, and if so, what objective or subjective knowledge should be required?**

No punitive or exemplary damages should be permitted.

**13. Should the conduct of the infringer, e.g. setting out to make profit from infringement which exceeds the compensatory damages payable to the right holder, justify punitive/exemplary damages greater than those required to compensate the right holder:**

- a) when the infringer had some intention/knowledge of the objective of making the profit?

**Summary**

Q279 looks into various questions in connection with the reasonable awareness in compensation for infringement of IP rights. It examines the role that objective and subjective knowledge of the infringer, the infringer's beliefs and opinions and the publication of the scope of the IP right play when it comes to awarding and to quantifying damages for IP right infringements. Q275 further covers the question whether punitive or exemplary damages (being damages greater than those required to compensate the right holder) are and should be permitted.

After summarizing the Swiss law *de lege lata* the (Swiss) working group discusses first the potential for improve-

ments to the applicable law and then the question whether a harmonization of this area of law would be welcome. Some of the Swiss Group take the view, that courts, in certain cases, should differentiate more between the various levels of fault when determining the amount of damages to be compensated. Further, the Swiss Group strongly takes the view that damages should not be elevated to discourage infringement. In particular, neither punitive nor exemplary damages would be welcome. The Swiss Group sees no need for harmonization in this area, as the role of knowledge in relation to damages is deeply intertwined with the general principles of tort law of each individual jurisdiction.

- b) when the infringer had no intention/knowledge of making the profit, and the profit was made «accidentally»?

NO. No punitive or exemplary damages should be permitted. However, the right holder harmed by the infringement may choose to claim accounts for profits based on a different legal basis.

- c) regardless of the knowledge of the infringer?

NO. No punitive or exemplary damages should be permitted. However, the right holder harmed by the infringement may choose to claim accounts for profits based on a different legal basis.

*(This question does not concern compensation based on the unlawful profits of the infringer)*

**14. Please comment on any additional issues concerning any aspect of the role of knowledge in relation to damages you consider relevant to this Study Question.**

In Switzerland the infringer's knowledge is usually not the most difficult hurdle to surmount when it comes to damages claims. The stumbling block is usually the substantiation and the proof of the damage.

**15. Please indicate which industry sector views provided by in-house counsel are included in your Group's answers to Part III.**

We had no in-house counsels in our Group.