Client Briefing March 2016

Damages in the context of Intellectual Property: Notional royalty and moral prejudice are compatible

On 17 March 2016 the Court of Justice of the European Union issued a judgment in the "Liffers" case (C-99/15) upholding the right of a copyright holder opting for the notional royalty indemnification criterion to also claim damages for moral prejudice caused by the infringing conduct

I. Background: a case "Made in Spain"

The Judgment of the Court of Justice of the European Union ("**CJEU**") of 17 March 2016 (C-99/15) relates to the lawsuit in Spain between Christian Liffers, on the one hand, and Producciones Mandarina, S.L. ("**Mandarina**") and Gestevisión Telecinco, S.A. ("**Gestevisión**", now Mediaset España Comunicación, S.A.), on the other.

Mr Liffers is the screenwriter, director and producer of the audiovisual work entitled "Dos patrias; Cuba y la noche", which narrates six intimate, personal stories of homosexuals and transsexuals in the city of Havana. Production company Mandarina made a documentary on child prostitution in Cuba and included some excerpts from Mr Liffers' work without his consent. The Mandarina documentary was broadcast by the Telecinco TV channel, obtaining an audience share of 13.4%.

In view of the unauthorised use of his audiovisual work, Mr Liffers filed an action for the infringement of copyright against Mandarina and Gestevisión in which he essentially sought that (i) the defendant entities be declared to have infringed his rights; and (ii) they be ordered to cease the infringement and indemnify him for the damage caused, which he quantified at 6,740 euros for the infringement of exploitation rights and 10,000 euros corresponding to **moral prejudice** (moral damage).

Article 140 of the Intellectual Property Act ("**LPI**") –which is originally derived from Article 13.1 of Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights ("**Directive 2004/48/EC**")- allows the injured party in copyright actions to establish the indemnification for damages using the following criteria: (a) the negative economic consequences, including, "*lost profits suffered by the injured party*" and "*the profits obtained by the infringing party through the unlawful use* [of the rights]", with an entitlement in both cases to damages for moral prejudice, or, alternatively, (b) "[t]*he amount which the injured party would have received as payment, if the infringer had requested authorisation to use the copyright in question*", which is usually referred to as notional royalty.

In order to determine the indemnification corresponding to the infringement of the exploitation rights, Mr Liffers opted for the criterion established in Article 140.2 b) LPI, i.e., the notional royalty but, at the same time, requested indemnification for the moral prejudice despite the fact that the wording of the legislation did not seem to contemplate this possibility.

Basically, the crux of the dispute on damages came down to whether or not the injured party (Mr Liffers) was also entitled to indemnification for moral prejudice when he had opted from the indemnification criterion of notional royalty (Article 140.2 b) LPI) and not for the criterion of the lost profits of the rightholder or the profits obtained by the infringing party (Article 140.2 a) LPI).

Commercial Court no. 6 in Madrid found in favour of Mr Liffers in Judgment number 587/2011, of 30 June 2011, although this was overturned by the Madrid Court of Appeal (Section 28) on the following grounds:

> "[…] *the option of notional royalty constitutes an alternative indemnification criterion, which dispenses with the actual damage contemplated in section a) of the precept in order to facilitate indemnification. Being an alternative criterion, it is limited to the terms of section b) and the legislator does not allow a third criterion to be included, which would be the result of mixing the indemnifications envisaged in each section, with the resulting possibility of being able to add the notional royalty to the damages for moral prejudice*" (Fourth Point of Law of Judgment 14/2013, of 21 January 2013)

The fact that two different specialist courts should reach diametrically opposing conclusions on a matter need not raise eyebrows; it is an unmistakable sign of the uncertainty existing in this area. As such, it is not surprising that when the proceedings reached the Supreme Court (Cassation Appeal 834/2013), this Court decided to refer the following question to the CJEU for a preliminary ruling:

> "May Article 13(1) of Directive 2004/48/EC be interpreted as meaning that the party injured by an intellectual property infringement who claims damages for pecuniary loss based on the amount of royalties or fees that would be due if the infringer had requested authorisation to use the intellectual property right in question cannot also claim damages for the moral prejudice suffered?" (Ruling of the Spanish Supreme Court (Civil Chamber) dated 12 of January of 2015)

II. The finding of The Court of Justice of the European Union: Notional royalty and damages for moral prejudice are compatible

According to the CJEU Judgment of 17 March 2016, damages for moral prejudice can always be claimed, regardless of the indemnification criterion chosen by the injured party.

In reaching this conclusion, the starting point for the CJEU in its Judgment of 17 March 2016 was the conviction that Article 13.1 of Directive 2004/48/EC should be interpreted not just literally, but also in terms of the context of the rule (systematic interpretation) and the end sought by the same (purposive interpretation):

1. First of all, the CJEU considers that "*although* [the wording of Article 13.1, <u>second paragraph</u> of Directive 2004/48/EC] *does not mention moral prejudice as an element which the judicial authorities must take into consideration when setting the amount of damages to be paid to the rightholder, it also does not exclude that type of harm from being taken into account. By providing for the possibility of setting the damages as a lump sum on the basis of, 'at least', the elements referred to therein, that provision allows other elements to be included in that amount, such as, where appropriate, compensation for any moral prejudice caused to the rightholder*";

2. Secondly, the CJEU considers that the above interpretation is supported by Article 13.1, <u>first paragraph</u>, of Directive 2004/48/EC, according to which the competent judicial authorities must order the infringer to pay the injured rightholder "*damages that are appropriate to the actual prejudice suffered by him as a result of the infringement*". As such, provided that it is proven, the moral prejudice constitutes a component of the "*actual prejudice*" suffered by the rightholder "*as a result of the infringement* ";

3. Thirdly, a joint interpretation of Article 13.1, second paragraph, letter b) with Whereas 26 of Directive 2004/48/EC led the CJEU to conclude that the amount of damages may be calculated on the basis of a series of elements in which moral prejudice has not been taken into account, which does not exclude it; and

4. Finally, the CJEU considers that accepting claims for moral prejudice when the criterion of notional royalty has been chosen is the solution that offers the best fit with the aim of Directive 2004/48/EC which, according to Whereas 10, 17 and 26, is designed to attain a high level of protection for intellectual property rights.

All of these reasons led the CJEU to conclude that the calculation of indemnification of damages to be paid to a holder of intellectual property rights must be aimed at guaranteeing full reparation for the "*actual prejudice*"; that is, it must abide by the principle of *restitutio in integrum*. Accordingly, the indemnification may include moral prejudice regardless of the damages criterion chosen by the rightholder.

III. Relevance of the CJEU judgment of 17 March 2016 (Liffers case)

Leaving aside the undoubted usefulness of the CJEU Judgment of 17 March 2016 (Liffers) in terms of the criteria to be applied when interpreting Community rules, the Judgment has cast light on a matter that was in urgent need of clarification and that had given rise to contrasting judgments by the Spanish courts.

The CJEU decision of 17 March 2016 is good news for rightholders. At last, there can be no doubt that moral prejudice forms part of their right to be indemnified in full, regardless of the criterion they choose to quantify the damages suffered (section a) or b) of Article 140.2 LPI). Having closed the debate on the existence of this element when notional royalty is chosen, we can now concentrate on the real headache caused by moral prejudice in practice, namely, quantification of the same.

Meanwhile, it is also important to take note of the "expansive force" of the CJEU Judgment of 17 March 2016. Despite having been handed down in copyright proceedings, as the CJEU is interpreting the scope of Article 13.1 of Directive 2004/48/EC (also applicable to industrial property rights), the CJEU decision of 17 March 2016 also covers damages for moral prejudice claimed in cases involving infringements of trade marks (Article 43.2 of the Spanish Trade Mark Act), patents (Article 66 of the Spanish Patent Act) and industrial designs (Article 55.2 of the Spanish Industrial Design Protection Act).

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