

Article

Remedies for Infringement of Intellectual Property Rights in the Netherlands

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Introduction

Over the past decades remedies for the infringement of intellectual property rights (IPR) such as patents, copyrights and trademark rights, have attracted increased attention in the Netherlands. In the past few years focus has been particularly on the cross-border prohibitory injunction. This remedy entails a prohibitory injunction being imposed in the Netherlands may have effect abroad as well. The popularity of the cross-border prohibitory injunction increased as it became possible to seek this remedy in preliminary relief proceedings. In such proceedings judgment is rendered on very short term basis. The simplicity of the action means that it offers a relatively inexpensive and efficient opportunity to resolve a dispute. Moreover, until recently Dutch courts tended to award various ancillary claims in addition to the prohibitory injunction itself, such as the recall order, rectification order, the order to provide information and the order to pay an advance sum on damages. However, the judgment recently given by the Supreme Court in *HBS v. Danestyle* (April 14, 2000, AMI 2000, p. 134 (T.E. Deurvorst); *NJ* 2000, 489 (D.W.F. Verkade) unfortunately discouraged the courts from awarding ancillary claims. The Supreme Court ruled that the award of each remedy is to satisfy the requirement of urgent cause. This judgment particularly calls a halt to the awarding of an advance payment on damages and surrender of profits gained; as a rule such claims will require an action on the substance of the case. Such actions, however, are more thorough, lengthier and more expensive. Meanwhile various initiatives have been taken to have these actions conducted more efficiently. This is of major importance since orders given in preliminary relief proceedings must be confirmed by a court ruling on the substance of the case in order for the order to remain enforceable, as in accordance with Article 50(6) of the TRIPS Convention. This article discusses the main civil law remedies available in the event of infringement of intellectual property rights and their current significance in legal practice.

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The following remedies will be reviewed:

- compensation in cash and in kind (including the recall order and rectification);
- prohibitory injunction and mandatory injunction order (including the order to provide information);
- the declaratory judgment;
- surrender of profits;
- reasonable royalty for improper use of rights.

The more procedural remedies such as seizure of infringing products, means of production, orders to render these unusable, etc. will not be considered.

Objectives

The objectives of the various remedies available are divergent and must be kept in mind at all times. One of the major principles in imposing sanctions is the principle of effectiveness. This means that it must be prevented that the sanction is a windfall to the prevailing party. The principle of effectiveness also entails that under compensation of the sanction must be prevented.

However, in practice courts often tend to impose rather modest sanctions to be on the safe side, even in those fields where they have not been given discretionary power.

1. Payment of loss is the key objective of damages.
2. Prevention of imminent injustice is the primary objective of the prohibitory and mandatory injunction, to the extent that these serve to satisfy a legal obligation.
3. Prevention of imminent injustice may well be the main motive to request a declaratory judgment which may, however, also serve as a basis for compensation or even serve as compensation for non-economic damage.
4. The primary objective of a reasonable royalty for the improper use of rights is to undo the enrichment of the infringing party to the extent that this corresponds with a loss of the holder of the IPR.

5. The key objective of surrender of profits is the payment of the net profits gained on account of the infringement, which removes the commercial incentive of the infringer to commit any further infringement.

Currently, Dutch civil law has no provisions on punishment in this respect. This is no doubt the reason why up until now there has been no room for awarding punitive damages.

Damages

In the context of infringement of intellectual property rights the practical significance of compensation in cash is far less than where prohibitory and mandatory injunctions are concerned. An essential reason is the fact that the awarding of compensation in cash does not fit the scope of preliminary relief proceedings. Moreover, the above Supreme Court judgment in *HBS v. Danestyle* was the coup de grâce for the admissibility of advance payment on damages in preliminary relief proceedings because the Supreme Court imposed the requirement that the plaintiff should have urgent cause to seek such relief. As interest at the statutory rate is capable of reimbursement, claims for cash are seldom considered urgent, save if the plaintiff has liquidity problems. Proceedings on the substance of the case regarding the award of damages will take years, while the outcome cannot be predicted. After all, the calculation of damages in case of infringement of intellectual property is largely based on uncertain, market-related hypotheses (T.E. Deurvorst, *Damages, Reasonably Royalty and Accounting of Profits for Infringement of Intellectual Property Rights*, Kluwer, Deventer, 1994). Financial loss in the event of infringement of intellectual property rights generally concerns one or several of the following factors:

(a) Loss of profit on account of missed markets for the original products. Courts often calculate this loss item based on (part of) the infringing products sold, multiplied by the profit margin of the injured party.

(b) Loss of profit on account of missed royalties. This loss item often comes up when the rightful owner is also engaged in granting licences. Damages will be calculated mostly on the basis of the number of infringing products, multiplied by the customary licence fee.

(c) Loss of profit on account of missed parallel sales. If the rightful owner of the intellectual property rights sells or renders—in addition to the product protected by IPR—other products and services as well, the infringement committed may entail that he will sustain loss of profit as a result of missed parallel sales. This loss item may occur for instance in the event that a software producer who also holds the copyright in that software misses incidental earnings from updates or rendering advice as a result of the fact that another party sells illegal copies of his software.

(d) Loss of profit on account of dumping. An infringer may dump his infringing product on the market to such extent that the rightful owner is forced to cut the prices he commonly charges for the original product.

(e) Reduction of value of the IPR. Repeated infringement may have consequences for the value of an IPR on the balance sheet (if included therein) or, as the case may be, for the IPR as a source of future earnings. Save in exceptional cases, courts will not award beyond approximately NLG 40,000 for this item.

(f) Costs. Various costs qualify for compensation, such as costs incidental to limiting loss, to determining liability and to reach an amicable settlement. A fixed rate applies to the costs of litigation, which is substantially lower than the actual costs. Perhaps Article 45(2) of the TRIPS Convention offers more options to recover legal fees than the provisions of general law. Practice will tell.

(g) Investments made to no avail and special costs such as loss of profit to be paid to distributors qualify for compensation as well, provided that the causal connection is sufficiently evidenced.

The party injured by the infringement must furnish plausible evidence that there is a causal connection between the infringement and its own loss (*conditio sine qua non link*). Such a link is difficult to prove. Courts largely tend to consider this proven if the injured party furnishes sufficient evidence related to market response. In addition to the causal connection the general requirement to establish liability is that the infringement can be attributed to the infringer, meaning that he is culpable. In the event of infringement of intellectual property rights that have been published in a public register (e.g. the Benelux Trademarks Register) such culpability is generally presumed. Section 70(3) of the 1995 Dutch Patents Act (*Rijksoctrooiwet*) imposes a stricter requirement of culpability, i.e. wilfulness (intention or gross negligence). As a rule, wilfulness must be evidenced by means of a writ of notification, served by a bailiff on the infringer, notifying him of the infringing nature of his acts. Recently, however, the Court in The Hague has ruled that this stricter requirement is in conflict with the less strict requirement of Article 45(1) of the TRIPS Convention.

Besides compensation in cash, a plaintiff may be awarded compensation in another form: compensation in kind. This form of compensation may for instance be effected by a judicial order, requiring the infringer to recall the infringing products (the "recall order"). This measure falls within the scope of preliminary relief proceedings and is therefore often requested in that context. Courts have discretionary power to award compensation in kind. In certain circumstances a request for an order to rectify may also be considered a form of compensation in kind. Courts often tend to use their discretionary power to dismiss a request for an order to rectify, particularly if the rectification requested seems to be a rough remedy in proportion to the seriousness of the infringement.

Besides, as compensation for financial loss, this remedy may also serve to compensate non-financial loss (non-economic damages). In the context of infringement of intellectual property rights, non-economic damages are nearly always awarded solely in the event of a breach of copyright-related moral rights, such as the mutilation of a work protected by copyright.

Prohibitory and Mandatory Injunctions

Prohibitory and mandatory injunctions are the main remedies for infringement of intellectual property rights.

They may prevent the market for the IPR-protected object from being permanently spoiled. Unlike compensation in cash, such injunctions can be enforced by a penalty and fit the context of preliminary relief proceedings.

As a rule, plaintiffs base their request for a prohibitory or mandatory injunction on Section 3:296 of the Dutch Civil Code (by way of ordering a defendant to satisfy a legal obligation). This means that in cases of infringement of intellectual property rights the rightful IPR-owner is entitled to request that the infringer satisfy his legal obligation to refrain from committing infringement. Orders to satisfy a legal obligation also include the—frequently occurring in the context of IPR—order to give information (*e.g.* to provide a list of customers to whom infringing products have been sold) for the purpose of enabling the rightful owner to verify whether the infringer has complied with an injunction or recall order. This category also includes orders to name suppliers. In certain circumstances a rectification order can also be considered an order to satisfy a legal obligation.

In practice, a prohibitory or mandatory injunction under Section 3:296 of the Dutch Civil Code BW requires the existence of imminent infringement and sufficient interest of the plaintiff in the remedy sought. If infringement has been committed already and/or if the infringer is not willing (on forfeiture of a penalty) to give a written undertaking that he will refrain from (any further) infringement, a court will consider these requirements satisfied.

In principle, courts do not have discretionary power to disallow claims for fulfilment of a legal obligation. They have this power, however, in preliminary relief proceedings. As indicated above, Dutch courts have the power to give prohibitory and mandatory injunctions which have legal effect outside the territory of the Netherlands, provided that the terms applicable have been satisfied. In the context of an action on the substance of the case, the questions whether there is a case of imminent unlawful acts or whether the plaintiff has sufficient cause play a particular part. If remedies are sought by means of preliminary relief proceedings additional requirements are imposed, such as urgent cause and the requirement that the plaintiff's interests outweigh those of the defendant. In addition to these requirements there are several other essential aspects in effecting a cross-border prohibitory or mandatory injunction: provisions of international private law—which are not discussed here—such as jurisdiction, recognition and enforcement.

Declaratory Judgment

A declaratory judgment is a binding judgment establishing the legal relationship between the parties. The declaration is given in the operative part of the judgment. However, means of enforcement such as penalties or coercive civil imprisonment do not fall within the scope of such judgment. A declaratory judgment may be useful for the purposes of resolving or avoiding a dispute. For instance, a declaration stating that a certain act does not constitute infringement of intellectual property rights may prevent

a defendant from being confused about his legal position and thus prevent him from committing (any further) infringement. A declaration that certain acts constitute infringement may prevent unnecessary investments. In practice, declaratory judgments are not often requested, particularly because the remedy cannot be sought in preliminary relief proceedings. Courts may give declaratory judgments only upon the request of a party which has proper cause and is directly involved in the legal relationship. One cannot apply to courts for academic or purely ideological disputes. The key issue is whether the parties actually have a conflict.

Surrender of Profits

Surrender of profits is directed at payment of the profits gained on the infringement to the rightful owner of the IPR. There are two types of surrender of profits:

1. Under Section 6:104 of the Dutch Civil Code surrender of profits is used as a means of assessing loss, whereby (part of) the profits gained by the infringer is considered representative of the loss sustained by the rightful owner. The actual significance of surrender of profits by way of assessment of loss is small, since the profits gained by the infringer are seldom indicative of the loss sustained by the rightful IPR-owner.
2. Under certain IP-laws a claim for surrender of profits can be awarded, ordering the infringer to surrender his profits to the rightful IPR-owner regardless of the question whether or not the latter has sustained a loss ('proper' surrender of profits). The basis for such remedy is provided by specific laws on intellectual property such as Section 70(4) of the 1995 Dutch Patent Act, Section 27(a)(2) of the Dutch Copyrights Act (*Auteurswet*) and Article 13A(4) of the Benelux Trademarks Act. Not all laws include a provision on surrender of profits. In the above Supreme Court judgment in *HBS v. Danestyle* the Supreme Court has ruled that surrender of profits and compensation can be cumulated in case of copyright infringement, provided that the compensation does not include loss of profits on account of the infringing products sold. One of the requirements set for the awarding of surrender of profits (in its proper meaning) is that the profits have been made from the infringement. Case law shows that in assessing the costs to be deducted courts have applied both integral and variable cost price calculation methods. Furthermore, a causal connection must exist between the infringement and the profits made. Only rarely can profits be entirely attributed to the use of the rights protected by IP law. As a rule there are various other factors which have contributed to the profits made, such as the infringer's goodwill and distribution channels. Therefore, an allocation of the profits to the infringement is required. The problems incidental to such allocation mean that surrender of profits is a remedy not easily considered for infringement of intellectual property rights. Most rules on the surrender of profits require wilfulness or gross negligence. For instance, Section 70(4)

of the Dutch Patents Act 1995 requires wilfulness and Article 13A(4) of the Benelux Trademarks Act requires that the infringer has acted in bad faith. Although Section 27(a) of the Dutch Copyright Act does not impose any particular requirements in respect of intent, plaintiffs are often required to prove wilful infringement or gross negligence (piracy) when claiming surrender of profits. Finally, by virtue of most IP-legislation, courts have discretionary power to award surrender of profits. If a court considers the surrender of profits not expedient or too burdensome on the liable party, it may disallow the plaintiff's claim. (Cf. T.E. Deurvorst, *Comments on Hoechts Celanes v. BP Chemicals, Privaatrecht en Gros* (Instersentia, 1999) pp. 147-159.)

Reasonable Royalty for Improper Use of Rights

Payment of a reasonable royalty for improper use of rights simply means that the infringer must pay to the rightful IP-owner an amount in respect of the unauthorised acts committed. The remedy can be compared to a licence—meaning a contract for the use of rights—later agreed for acts carried out already. The purpose of such royalty is payment of a fee for acts of use already carried out. In many cases a royalty for improper use will not be indicative of the loss sustained by a rightful owner of IP-rights, for instance because such owner would never have agreed to the use by a third party of the exclusive intellectual property rights. The basis for the reasonable royalty for improper use may well be found in the laws on unjustified enrichment. The practical impact of this remedy is not great (as yet). Its potential impact is relevant in cases where infringement has caused minor loss or loss which can be assessed easily (such as loss of reputation), yet has been used by the infringer to enrich himself (e.g. cheap counterfeit of exclusive products).

Requirements for the awarding of a reasonable royalty for use are that without any legal ground the infringer has enriched himself at the expense of the IPR-owner who has sustained loss. In principle, these requirements are satisfied if an intellectual property right is infringed. As a rule, the amount of a reasonable royalty for use is related to the fee which hypothetical market parties would have stipulated in similar circumstances if a prior request for the use of the IPR had been made.

Preliminary Relief Proceedings

Matters regarding intellectual property are often brought to court in preliminary relief proceedings. Such proceedings are mainly conducted at short notice in a session held before a single judge. There is no room for extensive furnishing of evidence. The proceedings provide additional and/or other requirements for remedies.

As an example, one of the requirements is that the plaintiff must have urgent cause. If infringement of an intellectual property rights has been committed already and the plaintiff has not hesitated to bring the matter to court, as a rule the court will assume urgent cause if an injunction order is requested. The

recent *HBS v. Danestyle* judgment shows that each remedy sought must be reviewed on urgent cause, so for instance not only in the event of a request for prohibitory injunction for infringement but also in the event of an advance of compensation in cash, recall and rectification order. Monetary claims—save if a plaintiff has liquidity problems—will not easily be considered urgent. The party injured by the infringement must in principle submit his claims for compensation or other monetary relief to a court ruling on an action on the substance of the matter. Another significant characteristic of preliminary relief proceeding is that the awarding of a claim made in such action depends on the weighing of the parties' interests. In doing so, the court must take into account the provisional nature of its judgment and the seriousness of its impact on the defendant. On the other hand, the court must consider the extent of the plaintiff's imminent loss (also in view of the risk of repeated infringement) should the prohibition claimed be disallowed. In this respect (weighing of interests) preliminary relief proceedings differ from an action on the substance of the case as regards a prohibitory or mandatory injunction. A third aspect is the fact that the judge ruling in preliminary relief proceedings may award provisional relief only. He does not have the power to give any order permanently changing the legal relationship between the parties. An example of such permanent order would be a declaratory judgment or an order for the destruction of infringing products.

A fourth distinction is that the consequences of the remedies ordered in preliminary relief proceedings are of a provisional nature. Article 50(6) of the TRIPS Convention provides that provisional measures shall be followed by an action on the substance of the matter, to be instituted by the successful plaintiff within a certain term in order to prevent the lapse of the remedies awarded.

Summary

The most essential remedies which may play a part in infringement of intellectual property rights, have been outlined above. The most effective of these remedies are the prohibitory and mandatory injunction. The outcome of a claim for compensation cannot be predicted and parties often need to litigate for years in an action on the substance of the matter. As a rule, the amounts awarded will be relatively low. Surrender of profits is not an attractive remedy either, if only because the calculation of the profits to be surrendered is complicated. Although their role is modest, the declaratory judgment and the reasonable royalty may be quite useful in certain cases.