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Calculation of damages in criminal IP cases

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Executive summary

This report explores the legal and practical challenges in enforcing intellectual property (IP) rights within criminal proceedings, focusing particularly on damage calculation and the methodologies employed across various jurisdictions. It highlights the role of compensation for damages and the differing approaches legal systems take in calculating both the infringing amount and the actual loss.

Key findings emphasise the importance of determining the financial harm caused by illegal activities such as streaming, counterfeiting and piracy. In criminal cases, the primary objective is to compensate rights holders, who often are also referred to as victims or injured parties, for their losses, restore their financial standing and assess the seriousness of the offense. Courts often rely on expert analysis and server data to estimate the number of users and the duration of illegal activity in order to calculate damages.

The report highlights the varying legal frameworks for damage calculation in criminal IP cases across the EU. Most Member States address the issue of damage calculation only if a civil claim is submitted by the injured party. However, in some jurisdictions the prosecutor may introduce damage calculations to establish aggravating circumstances or because damages are a necessary element of the criminal offense.

Different methods for calculating damages are analysed, starting with the most common approach: calculating the financial loss of the rights holder, typically by estimating the profits that would have been earned had the infringement not occurred. While widely used, this method presents challenges in accurately determining the actual loss, particularly in cases involving copyright or trademark violations. The report reviews court practices across various countries and the questions that arise from these cases.

Additionally, the report examines other methods employed by courts, including calculations based on reasonable royalty rates, moral damages, and, as a last resort, lump-sum compensation. These approaches vary significantly depending on the specifics of each case, particularities or national legislation and national court practices.

1

Introduction

The calculation of damages in criminal intellectual property (IP) cases presents a complex and multilayered challenge across various jurisdictions. One of the most important objectives is to ensure that rights holders, who have a status of victims or injured parties in the criminal case, receive fair compensation for the damages incurred due to criminal acts such as counterfeiting, piracy and other forms of IP crimes. In most jurisdictions across the EU, the injured parties can file a civil law claim within the criminal proceedings and submit comprehensive evidence on the damage they suffered related to the alleged crime.

This report will analyse the concept of damages, their purpose and national legislation on civil law claims in the criminal cases. It will further delve into different national approaches in handling civil law claim in criminal IP cases. This report explores the diverse methodologies employed by courts in different EU Member States, highlighting the balance between detailed damage calculations and the practical realities of criminal proceedings.

There is no established methodology on how to calculate damages in criminal IP cases at either the international, EU or national levels. This leads to diverse and sometimes contradictory practice in different countries and different courts. Traditionally, courts aim to calculate damages based on a detailed assessment of the economic harm suffered by the injured parties. This approach seeks to provide precise compensation that accurately reflects the losses, thereby avoiding overcompensation. Such detailed calculations often involve financial and economic analyses, including lost profits, hypothetical royalties and other quantifiable losses. However, the practical application of these methods can be challenging due to the

complexity of the cases and the burden on criminal courts.

In many instances, the evidence provided by injured parties is critical in determining the appropriate level of compensation. Courts often rely on submissions from injured parties, including market analyses, financial records and expert testimonies. Despite the importance of such evidence, there are cases where precise calculations are impractical or impossible due to insufficient data or the inherent complexity of the infringement's impact. In these cases, criminal courts sometimes refer civil claims to civil courts to avoid undue delays in criminal proceedings. Alternatively, courts may resort to awarding lump sum compensation as a practical solution, ensuring that injured parties receive some form of redress.

The report will highlight a number of national cases and practical considerations that the courts tend to consider while calculating damages. Through comparative analysis, it aims to shed light on the effectiveness of different methodologies, the challenges faced by courts and the implications for injured parties seeking compensation. By understanding these diverse approaches, this report seeks to provide a comprehensive guideline on possible methodologies to address the calculation of damages in IP crime cases, which is often very difficult to determine precisely, and to demonstrate how various courts addressed and overcame these challenges.

2

Damages in criminal IP cases – what they are and why their calculation is needed

In criminal IP cases, calculating damages is a crucial process that serves multiple purposes. First, it provides a basis for civil claims submitted by injured parties within criminal proceedings, ensuring they receive fair compensation for the harm suffered due to the infringements. Second, in some jurisdictions the calculation of damages is a mandatory element of the crime itself, helping to distinguish between criminal and administrative violations based on the severity of the harm caused. Lastly, the large extent of damages can also serve as an aggravating circumstance, which could affect the qualification of the criminal offence and the severity of the penalties.

Calculation of damages when injured parties submit civil claims in criminal proceedings

IP rights have significant economic value not only for companies but also for public and private entities, whose activities to a certain degree are founded on the use of IP rights. The protection afforded by IP rights foster culture and innovation, which can be seriously jeopardised in case the protection offered by the IP rights is not efficiently enforced.

Compensation of damages in IP infringement cases plays a significant role as a remedy for the infringement itself. Damages serve as a base for calculating the compensation to the injured parties for the negative economic consequences of the infringement and act as a general deterrent for future infringements.

International treaties and EU legislation provide clear obligations for the Member States to ensure compensations for IP right



infringements in civil matters. For example, Article 45 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) indicates that the Member States must set the damages to adequately compensate the injury the rights owner has suffered. It further indicates that the damages include the expenses of the rights owners and recovery of statutory damages, even if the infringement was committed unknowingly.

At the EU level, the obligation for Member States to ensure that the competent judicial authorities could award the rights holders the appropriate damages is also set in Article 13 of Directive 2004/48/EC on the enforcement of IP rights (Enforcement Directive). This article indicates that the damages are set considering aspects such as negative economic consequences, including loss of profit; or as an alternative, setting a

What is Enforcement Directive and is it applicable to criminal IP cases?

This Enforcement Directive concerns the measures, procedures and remedies necessary to ensure the enforcement of intellectual property rights.

While the directive recognises that the criminal sanction can also constitute a means of ensuring the enforcement of intellectual property rights (recital 28), Article 2(b) clearly indicates that the provisions of the directive cannot affect Member States' obligations under the TRIPS Agreement or national provisions on criminal matters.

CJEU jurisprudence is also consistent in that the directive is not applicable in criminal matters.

However, national criminal courts still refer to the directive in calculating damages, as a document setting basic principles.

Examples of such decisions



Bulgarian
Supreme Court
of Cassation



Spanish
Supreme Court

lump sum based on elements such as royalties or other fees ⁽¹⁾.

While these provisions oblige the Member States to adopt legislation ensuring compensation of damages to the victim, it should be noted that these provisions are

mainly related to civil proceedings. Article 45 of the TRIPS Agreement is placed in the section entitled 'Civil and Administrative Procedures and Remedies'. Additionally, the Enforcement Directive is not applicable in criminal matters, as confirmed by the European Court of Justice (CJEU) in a number of cases ⁽²⁾.

While the TRIPS Agreement has a section entitled 'Criminal Procedures', it contains only one provision – Article 61. This provision sets an obligation for the Member States to provide criminal procedures and penalties in cases of wilful trademark counterfeiting or copyright infringement committed on a commercial scale. This shows that the minimum criteria set are related to the wilfulness and the commercial scale. The term 'on a commercial scale' refers to counterfeiting or piracy carried out as part of a commercial activity, meaning that it refers to the commercial gain from the illegal activity rather than to the damage caused to the victim. This shows that the TRIPS Agreement does not set binding international obligation on the Member States to set a mechanism of compensation of damages in criminal proceedings.

This regulation highlights that the obligation to determine damages is primarily set within civil proceedings. While criminal courts often reference civil law principles to establish methods for calculating damages, the absence of an internationally binding obligation to set damages specifically in criminal proceedings has led to varying approaches across jurisdictions.

In many countries, civil claims are allowed in criminal proceedings, where the injured party can come forward asking the judge to award the damages suffered as a result of the criminal act. For example, Article 51f of the

⁽¹⁾ Article 13, Corrigendum to Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights (OJ L 157, 30.4.2004, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32004L0048R%2B01%29>).

⁽²⁾ Judgment of the Court of Justice of 25 January 2017, *Stowarzyszenie 'Oławska Telewizja Kablowa' w Oławie v*

Stowarzyszenie Filmowców Polskich w Warszawie, C-367/15, ECLI:EU:C:2017:36, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:62015CJ0367>.

Dutch Criminal Code indicates that a person who has suffered direct damage as a result of a criminal offence may file their claim for damages as an injured party in the criminal proceedings ⁽³⁾. Another example is Article 100 of the Slovenian Criminal Code, indicating that a civil claim that results from a criminal offence has to be dealt with at the criminal proceeding only at the request of the beneficiaries and only if that does not delay the criminal proceedings ⁽⁴⁾. Portugal, for example, uses a principle of adhesion, which means that if the injured party chooses to bring a civil claim based on the criminal offence, the claim has to be brought up in the criminal proceeding and can be brought separately before civil court only in cases prescribed by the Criminal Code ⁽⁵⁾. Portuguese court practice has confirmed the principle of adhesion and indicated that the criminal court's power is limited by the subject matter of the proceedings, thus the claim for civil damages made in the criminal

proceedings must always be based on the commission of the crime ⁽⁶⁾.

These examples show that while civil claims are allowed in criminal proceedings, they usually have to be initiated by the injured parties themselves and need to be connected to the criminal proceedings. At the same time, some countries set limits on when the civil claims can be heard in criminal proceedings. The above-mentioned Slovenian Criminal Code indicates that civil claims in criminal proceedings can be heard only if this would not delay the criminal proceedings. Similar provisions are also set in the Slovak Criminal Procedure Code, which gives the prosecutor a right to request that injured parties be excluded from criminal proceedings if the following conditions are met: (a) there are a large number of injured parties (more than 100); and (b) the participation of injured parties in criminal proceedings could seriously impair the purpose and rapid progression of the criminal prosecution ⁽⁷⁾. In a case of illegal downloading of protected movies and music, the Slovak Supreme Court upheld the prosecutor's request to remove injured parties from the criminal proceedings, indicating that the goal of criminal proceedings is to ensure that the case is adequately investigated and that the accused is brought to justice. There were more than 100 injured parties in this case, most of them based in the United States. The court thus concluded that the exercise of individual injured parties' rights in large numbers could jeopardise the objective and speed of the criminal prosecution ⁽⁸⁾.

This shows that while injured parties have a right to submit a civil claim in a criminal

General conditions to submit civil claims in criminal cases

01

A civil claim needs to be initiated by the injured parties

02

The claim must be linked to the damages suffered from the criminal offence

03

In some countries, it is required that the claim would not prolong the criminal proceedings

04

Civil courts generally have to wait for the conclusion of the criminal case to finalise the civil case

⁽³⁾ Article 51f of the Dutch Criminal Code, <https://wetten.overheid.nl/BWBR0001903/2024-01-01/#BoekEersteTiteldeelIIIAfdelingDerdeArtikel51f>.

⁽⁴⁾ Article 100 of the Slovenian Criminal Code, <https://zakonodaja.com/zakon/zkp/x-poglavje-premozenjskopravni-zahtevki>.

⁽⁵⁾ See Articles 71 and 72 of the Portuguese Criminal Code, https://www.pgdlisboa.pt/leis/lei_mostra_articulado.php?artigo_id=199A0071&nid=199&tabela=leis&pagina=1&ficha=1&so_miolo=&nversao=#artigo.

⁽⁶⁾ Judgment of the Court of Appeal of Guimarães,

7 October 2014, 2647/06.2TAGMR. G1, <https://www.dgsi.pt/jtrg.nsf/86c25a698e4e7cb7802579ec004d3832/cf1724642aee90ec80257d4f004d916e?OpenDocument>.

⁽⁷⁾ Section 47(3) of the Slovak Criminal Procedure Code, <https://www.slov-lex.sk/ezbierky/pravne-predpisy/SK/ZZ/2005/301/20230601>.

⁽⁸⁾ Decision of Supreme Court dated 5.10.2016 in case No 2 Ndt 20/2016 2 Ndt 20/2016 – návrh na nepripustenie účasti poškodených v trestnom konaní (judikaty.info).

case, there are some safeguards to ensure that the civil claims do not jeopardise the course of the criminal case. In some jurisdictions, it is clearly stated that the civil claim can be linked only to the criminal case while in other jurisdictions, there are legally set caps on how many injured parties can participate in criminal proceedings. These thresholds are very relevant in some criminal IP cases, such as cases of illegal IPTV services, where there might be hundreds of injured parties.

This is in line with Article 6 of the European Convention on Human Rights on fair trial, indicating that everyone is entitled to a fair and public hearing within a reasonable time⁽⁹⁾. The requirement of 'reasonable time' is intended to counter excessively long judicial proceedings. If the proceedings are unduly delayed, the accused can claim to be a victim claiming for redress. In criminal cases, this might take the form of a reduction of the sentence in an express and measurable manner.

In the Netherlands, on the other hand, even though it is usually allowed for the injured parties to submit civil claims in criminal proceedings, the courts generally do not accept civil claims in criminal IP cases. Various criminal courts have repeatedly stated that the answering requests for compensation from civil parties would disproportionately burden the criminal case, and therefore the requests of the injured party are declared inadmissible before the criminal court⁽¹⁰⁾. The civil party in this case is allowed to bring their claim before the civil court once the criminal case is finalised.

Finally, in some jurisdictions, civil claims are not allowed at all in criminal cases. An example of such jurisdiction is Malta, where the Criminal Code recognises that every

criminal offence can give rise to both civil and criminal action. However, the civil action is exclusively tried before civil courts, where the compensation for damage caused by the criminal offence is thereby demanded⁽¹¹⁾. Another example is Cyprus, where criminal courts have inherent jurisdiction to award a limited amount of compensation to the victim of crime in criminal proceedings, provided that the accused is found guilty. However, this provision is barely used and has not been used at all in recent decades⁽¹²⁾.

Overall, these examples illustrate the diverse legal approaches to calculating and awarding damages in criminal IP cases. While some jurisdictions integrate civil claims within criminal proceedings, others maintain a clear separation, highlighting the need for tailored approaches that balance the rights of the injured parties with the efficient administration of justice. In most cases, the calculation of damages is initiated by claims submitted by the injured parties themselves. If no such claim is made, the court is generally not obligated to address damages unless they are a mandatory element of the crime or serve as an aggravating circumstance. These scenarios will be explored in detail in the following chapters.

In contrast, the confiscation or seizure of illicit proceeds of crime can be done regardless of whether there is a claim for damages submitted by the injured parties. Confiscation or seizure is designed to deprive the criminals from profits derived from their criminal action. If there is a civil claim for damages filed in the criminal case, the illicit proceeds could be used to cover fully or in part the awarded damages. Importantly, seizure and confiscation can

⁽⁹⁾ Article 6 of European Convention on Human Rights, https://www.echr.coe.int/documents/d/echr/convention_eng.

⁽¹⁰⁾ District Court Gelderland, 18 December 2013, ECLI:NL:RBGEL:2013:5827, <https://uitspraken.rechtspraak.nl/details?id=ECLI:NL:RBGEL:2013:5827>; Appeal Court The Hague, 2 February 2011, ECLI:NL:GHSGR:2011:BR0711,

<https://rechtspraak.io/uitspraken/ECLI:NL:GHSGR:2011:BR0711>.

⁽¹¹⁾ Article 3(3) of the Maltese Criminal Code, <https://legislation.mt/eli/cap/9/eng/pdf>.

⁽¹²⁾ Claiming damages from the offender, Cyprus – last updated in March 2024, https://e-justice.europa.eu/494/EN/claiming_damages_from_the_offender?CYPRUS&member=1.

occur even if the criminal offense is considered a formal violation, and even if the injured parties (such as the IP rights holders) do not submit a claim for compensation within the criminal proceedings.

A comprehensive overview of the right to submit a civil claim in criminal proceedings across Member States is provided in Annex at the end of the report.

Calculation of damages to determine aggravating circumstances

Often, determining the damages caused by the criminal offense can also be used to ascertain aggravating circumstances or to qualify the criminal offense as a misdemeanour. This assessment of damages plays a crucial role in the judicial process by providing a more comprehensive understanding of the crime's impact. The extent and severity of damages can show the true nature of the crime, which might not be immediately evident from the act itself. Conversely, if the damages are relatively minor and the harm caused is less severe, the offense might be classified as a misdemeanour rather than a crime, leading to lighter penalties. This distinction is an important step in ensuring that the punishment is proportionate to the harm inflicted.

Such regulation is in line with the concept of proportionality, requiring that sanctions should not be disproportionate to the offence. The CJEU has indicated that while the Member States have the authority to establish the type and severity of the

sanctions, these measures must be proportionate to the severity of the criminal offence and must be adaptable to the specific circumstances of the case ⁽¹³⁾.

For example, Article 388 of the Hungarian Criminal Code indicates that infringement of industrial property rights is considered as a misdemeanour punishable by up to 2 years of imprisonment. However, part 3 of this article qualifies the infringement of industrial property as a criminal offence if it causes financial damage on a different level. Depending on the significance of this damage, the prison sentence could increase, even up to 10 years ⁽¹⁴⁾. A similar provision can also be found in Article 385(3) and (4) of the Hungarian Criminal Code regulating the criminal sanctions of copyright infringements.

Slovak Criminal Code is another example where significant damages can increase prison sentences from up to 3 years for regular trademark infringement to up to 5 years if the trademark infringement causes significant damage ⁽¹⁵⁾ (Article 125 of the Slovak Criminal Code indicates that significant damage is at least EUR 26 600) ⁽¹⁶⁾. Similarly, the Bulgarian Criminal Code provides for higher sanctions (a prison sentence from 2 to 8 years and a fine) if the criminal offence of copyright, trademark or industrial design violation was committed repeatedly or caused harmful

⁽¹³⁾ Judgment of the Court of Justice of 4 October 2018, *Dooel Uvoz-Izvoz Skopje Link Logistic N&N v Budapest Rendőrfőkapitánya*, C-384/17, ECLI:EU:C:2023:791, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:62017CJ0384>; Judgment of the Court of Justice of 19 October 2023, Case C-655/21, ECLI:EU:C:2023:791, <https://curia.europa.eu/juris/document/document.jsf?d>

[ocid=278792&mode=lst&pageIndex=1&dir=&occ=first&part=1&text=&doclang=EN&cid=2197098](https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:62017CJ0384).

⁽¹⁴⁾ Article 388 of the Hungarian Criminal Code, <https://net.jogtar.hu/jogszabaly?docid=a1200100.tv>.

⁽¹⁵⁾ Article 281 of the Slovak Criminal Code, <https://www.slov-lex.sk/ezbierky/pravne-predpisy/SK/ZZ/2005/300/20231020>.

⁽¹⁶⁾ Ibid, Article 125.

Examples of provisions setting damages as an aggravating circumstance

Hungary

(3) If the infringement of industrial property rights:

- a) results in **substantial financial loss**, the penalty shall be imprisonment of between 1 to 5 years;
- b) results in **particularly considerable financial loss**, the penalty shall be imprisonment of between 2 to 8 years;
- c) results in **particularly substantial financial loss**, the penalty shall be imprisonment of between 5 to 10 years.



Article 388(3) of the Criminal Code

Article 459 of the Criminal Code defines the losses.

- **Substantial financial loss.** Between HUF 5 million plus one and 50 million (approximately EUR 12 000 to 125 000).
- **Particularly considerable financial loss.** Between HUF 50 million plus one and 500 million (approximately EUR 125 000 to 1 125 000).
- **Particularly substantial financial loss.** Over HUF 500 million (approximately EUR 1 125 000).

Slovakia

(3) An offender shall be liable to imprisonment for a term of 1 to 5 years if they commit an offence referred to in paragraph 1 or 2:

- a) and causes **substantial damage** thereby;
- b) for a special motive; or
- c) in a more serious manner.



Article 281(3) of the Criminal Code

Article 125 of the Criminal Code defines the loss.

Minor damage means damage exceeding the amount of EUR 266. **Greater damage** means an amount reaching at least 10 times that amount. **Substantial damage** means an amount reaching at least 100 times that amount. **Damage of a large scale** means an amount reaching at least 500 times that amount.

These aspects will be used equally to determine the amount of the benefit, the value of the item and the scope of the act.

consequences⁽¹⁷⁾. While the Bulgarian Criminal Code does not define 'significant harmful consequences', it indicates that crimes that cause such consequences and other aggravating circumstances are considered as particularly serious crimes⁽¹⁸⁾.

The Polish Industrial Property Law indicates that if the offender has earned regular income from the criminal offence of trademark infringement or committed the offence in respect of goods of significant

value, the courts can award higher sentences – imprisonment from 6 months to 5 years⁽¹⁹⁾.

However, in case of unauthorised distribution of copyright-protected works, the Polish Law on Copyrights and Related Rights sets only these aggravating circumstances: making this criminal activity a permanent source of income and being an organiser of unauthorised distribution of copyright-protected material⁽²⁰⁾, which

⁽¹⁷⁾ Article 172b of the Bulgarian Criminal Code, <https://lex.bg/bg/laws/ldoc/1589654529>.

⁽¹⁸⁾ Ibid., Article 93(8).

⁽¹⁹⁾ Article 305(3) of the Polish Industrial Property Law, <https://isap.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=wdu19940240083>.

[du20010490508](https://isap.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=wdu20010490508).

⁽²⁰⁾ Article 116 of the Polish Law on Copyrights and Related rights, <https://isap.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=wdu19940240083>.

indicates that significant damage is not included among aggravating circumstances. There are more examples of criminal provisions which do not consider significant damages as an aggravating circumstance. For example, Article 337 of the Dutch Criminal Code and Article 31b of the Copyright Act provide higher sanctions (imprisonment not exceeding 4 years and a fine) if the criminal offence is committed during the course of business or causes common danger to persons or property ⁽²¹⁾. This shows that damage caused to the victim is not considered as an aggravating circumstance.

These examples demonstrate a diverse approach to integrating the requirement of calculation of damages into legal systems. While some Member States mandate the assessment of damages to establish aggravating circumstances and consequently to adjust the severity of sanctions, other legal systems do not necessarily require the assessment of damages to determine aggravating circumstances. Instead, these systems may focus on other factors, such as whether the crime was committed as part of a business operation, whether the perpetrator conducted this business as their permanent income or if it posed a common danger to persons or property.

Calculation of damages as a mandatory element of the criminal offence

In some rare instances, criminal codes set damages as a constituent element of the criminal offence itself. This approach is used to establish a clear threshold for the severity of the violation, thereby helping to determine whether the offense should be

addressed within the criminal or administrative jurisdiction. By defining specific financial thresholds or levels of harm that categorise an offense as criminal rather than administrative, these legal provisions ensure that only more serious infringements, which cause damage above a certain monetary threshold, are subject to criminal prosecution and penalties.

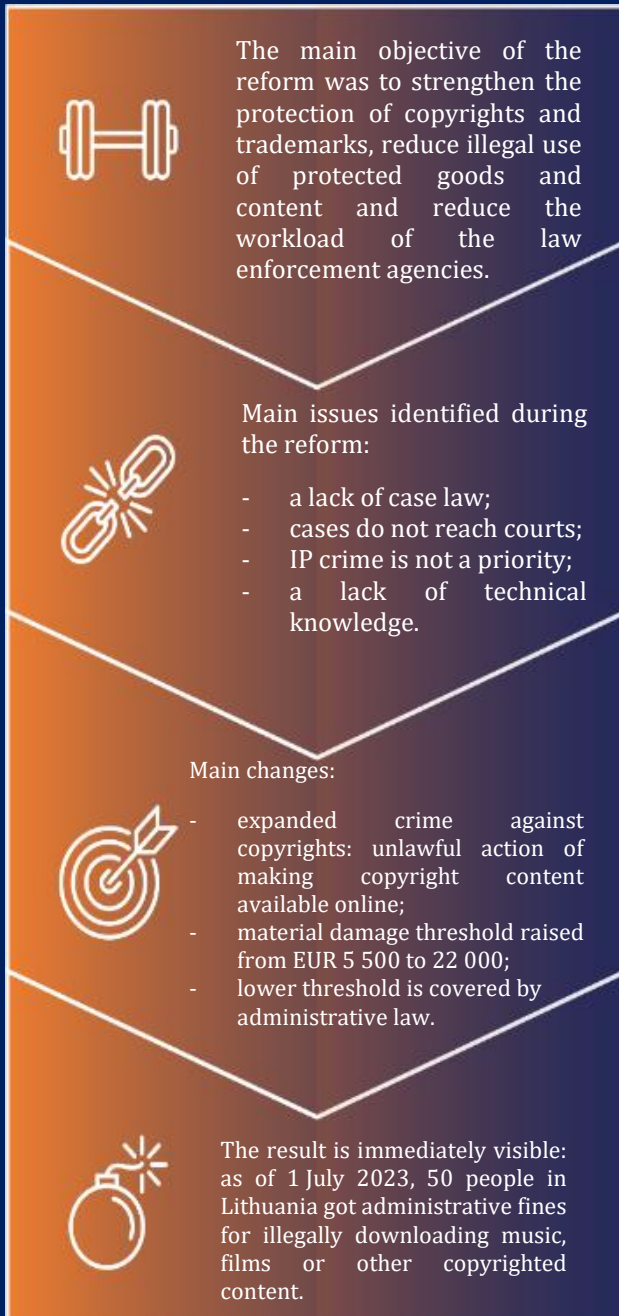
Certain IP laws might specify that only violations causing damages above a particular monetary value are treated as criminal offenses, while violations causing less damage are managed through administrative penalties. For example, the Lithuanian Criminal Code sets a material damage threshold for the IP infringement to qualify as a criminal offence. Article 204 of the Lithuanian Criminal Code foresees criminal sanctions for illegal use of trademark on a large quantity of goods or goods of considerable value when such use causes serious damage. The term ‘serious damage’ is defined in Article 212 of the Criminal Code as damage exceeding 400 minimum salary levels, which is EUR 22 000 ⁽²²⁾. The material damage threshold was increased from EUR 5 500 to EUR 22 000 with Criminal and Administrative Code changes, which intended to reform a somewhat outdated IP protection system, strengthen IP protection, reduce the illegal use of IP-protected content and reduce the workload of law enforcement agencies.

The requirement to determine material damage as part of the elements set by the criminal code has also been confirmed in Lithuanian court practice. A Lithuanian appellate court indicated that the criminal offence set in Article 204 of the Criminal Code required to prove not only an illegal act but also illegal consequences, which in this case is defined as serious damage. If the set

⁽²¹⁾ Article 337(3) and (4) of the Dutch Criminal Code, <https://wetten.overheid.nl/BWBR0001854/2022-10-01>. Article 31b of the Copyright Act, <https://wetten.overheid.nl/BWBR0001886/2022-10-01>.

⁽²²⁾ As of 1 January 2024, one minimum salary level equals EUR 55, <https://e-tar.lt/portal/lt/legalAct/9a6ec240981111eea5a28c81c82193a8>.

2023 amendments of the Lithuanian Criminal and Administrative Codes – element of damages



criteria of the material damage are not met, criminal sanctions cannot be applied and the case needs to be referred either to administrative or civil courts ⁽²³⁾.

The reform also strengthened the administrative IP protection by empowering the Lithuanian Radio and Television Commission to directly apply administrative liability for copyright infringements that cause damage lower than EUR 22 000 ⁽²⁴⁾. This shows a very important distinction between criminal and administrative liability, which sets high thresholds for criminal liability. This legal regulation requires the determination of damages in each criminal case, to ensure the inflicted damage meets the set requirement for the case to be prosecuted at a criminal court.

Latvian Criminal Law also has a similar provision: Article 206 indicates that criminal sanctions can be imposed for illegal use of trademark if it was done on a significant scale or if it has caused substantial harm ⁽²⁵⁾. The element of damage was a mandatory element until the Criminal Code changes introduced in 2022, where the legislator set an alternative quantitative element: significant scale. This allows the prosecutor to prove either of the elements.

Court practice has been consistent in that this criminal offence is a substantive offence, where not only harmful acts but also harmful consequences that have occurred because of these acts, is a mandatory element ⁽²⁶⁾. The element of substantial harm was introduced in Article 206 of the Latvian Criminal Law in 2011 to show the difference between criminal and administrative cases ⁽²⁷⁾. This shows that in the Latvian criminal system, criminal responsibility for IP crimes cannot

⁽²³⁾ Siauliai District Court, Case No 1A-143-309/2015, <https://liteko.teismai.lt/viesasprendimupaieska/tekstas.aspx?id=2a6dff27-6f3f-4b49-a39e-9095d3d5ddd0>.

⁽²⁴⁾ Article 589.8 of the Lithuanian Administrative Offences Code, <https://www.e-tar.lt/portal/lt/legalAct/4ebe66c0262311e5bf92d6af3f6a2e8b>.

⁽²⁵⁾ Article 206 of Latvian Criminal Law,

<https://likumi.lv/ta/en/en/id/88966-criminal-law>.

⁽²⁶⁾ Kurzeme Regional Court, 30 November 2015, <https://manas.tiesas.lv/eTiesasMvc/nolemumi/pdf/246252.pdf>.

⁽²⁷⁾ Kurzeme Regional Court, Case No. KA02-0181-15/6, 30 November 2015, <https://manas.tiesas.lv/eTiesasMvc/nolemumi/pdf/246252.pdf>.

emerge if detrimental effects are not demonstrated.

In the description of Article 206 of the Latvian Criminal Law, the legislator provided that the substantial damage can be only caused to the interest of the person protected by the law. Thus, the claim that this offence may endanger the economic interests of the state or economic growth of the state in relation to the IP, damage to fair competition or violation of the security interest of the consumers goes beyond the objective part of the criminal offence of trademark violation ⁽²⁸⁾. One of the criteria to define significant harm is to assess material loss, which at the time of the commission of the criminal offence was not less than 10 minimum monthly salaries (EUR 7 000) ⁽²⁹⁾.

In other countries, national legislation indicates that criminal sanctions are imposed only when the actions of the offender bring substantial material gain or cause significant damage. This shows that the requirement to prove the damages is one of the alternatives, and might not be a required element if there is evidence showing significant gain from illegal use of IP rights. Examples of such regulations are Articles 284 and 288 of the Croatian Criminal Code ⁽³⁰⁾ or Article 227 of the Estonian Criminal Code ⁽³¹⁾.

These examples demonstrate that, in certain cases, the court is required to calculate damages as a fundamental element of the criminal offense. The extent of the damages suffered by the rights owners becomes a

decisive factor in determining whether the infringement should be classified as a criminal offense or an administrative violation. This process ensures that only violations causing harm that the legislator considers significant enough are elevated to the criminal justice system.

In Bulgaria, the courts have taken a different approach to calculating damages in counterfeiting cases. Initially, an appellate court stated that a request for damages could only be brought before the criminal court if damages were a mandatory element of the criminal offense ⁽³²⁾. Since Article 172 of the Criminal Code does not include damages as a mandatory element of the crime of counterfeiting, the court dismissed the claims of the injured parties as inadmissible. This practice was later clarified by the Bulgarian Supreme Court of Cassation in its interpretative decision on the application of Article 172 of the Criminal Code ⁽³³⁾. The court indicated that injured parties have the right to compensation for damages that are a direct consequence of the criminal offense, regardless of whether damages are an element of the criminal offense. In cases of trademark violations, the criminal offense inherently results in a negative impact on the conditions for exercising exclusive trademark rights. Calculating damages is essential in criminal cases, as it often helps determine the scale of the criminal offense and distinguish it from administrative offenses. Additionally, the court emphasised that ensuring appropriate compensation for damages is mandated by Article 45 of the

⁽²⁸⁾ Ogres Regional Court, Case No 11816012211, 10 November 2016, https://www.at.gov.lv/files/uploads/files/6_ludikatu_ra/Tiesu_prakses_apkopojumi/2018/Apkopojums_but_isks_%20kaitejums_15_03_2018.docx.

⁽²⁹⁾ Significant harm is defined in Article 23 of Law on the procedure for the entry into force and application of the Criminal Law, <https://likumi.lv/ta/id/50539-par-kriminallikuma-speka-stasanas-un-piemerosanas-kartibu>. As of 14 November 2023, the minimum monthly salary in Latvia is set to EUR 700 – Regulations regarding the amount of the minimum monthly wage within the framework of normal working time and the calculation of the minimum hourly tariff rate, <https://likumi.lv/ta/id/278067-noteikumi-par->

[minimalas-menesa-darba-algas-apmeru-normala-darba-laika-ietvaros-un-minimalas-stundas-tarifa-likmes-aprekinasanu](https://www.zakon.hr/z/98/Kazneni-zakon).

⁽³⁰⁾ Articles 284 and 288 of the Croatian Criminal Code, <https://www.zakon.hr/z/98/Kazneni-zakon>.

⁽³¹⁾ Article 227 of the Estonian Criminal Code, <https://www.riigiteataja.ee/en/eli/ee/522012015002/consolide/current>.

⁽³²⁾ District Court of Pazardzhik, 22 June 2012, [Решение на Окръжен съд гр.Пазарджик по чл.172б от НК. – Кантора 'ЮСАУТОР'. \(jusauthor.com\)](https://www.jusauthor.com).

⁽³³⁾ Supreme Court of Cassation of the Republic of Bulgaria, 31 May 2013. <https://www.vks.bg/talkuvatelni-dela-osnk/vks-osnk-tdelo-2013-1-reshenie.pdf>.

TRIPS Agreement and the Enforcement Directive.

The Bulgarian Supreme Court of Cassation's interpretation shows the importance of compensating injured parties irrespective of whether damages are a statutory element of the crime, aligning with international agreements such as the TRIPS Agreement and the Enforcement Directive.

While the primary goal of this damage assessment is to establish the necessary elements of the criminal offense, it can also provide a basis for setting appropriate compensation for the injured parties. This dual purpose ensures that the rights owners are fairly compensated for their losses, and reinforces the offender's accountability. By integrating damage assessment into both the classification of the offense and the determination of compensation, the legal system upholds the principles of justice and proportionality, addressing both the punitive and restorative aspects of legal redress.

3

Purpose and general conditions of damages in criminal IP cases

Purpose of the damages in criminal IP cases

In criminal cases, the primary purpose of compensating damages is to restore the victim to the position they were in prior to the commission of the crime. This can include lost profits from sales or licenses that the victim would have earned if the infringement had not occurred. Additionally, the awarded compensation can address the harm made to the company's reputation and public image, which in turn devaluates the protected goods and works, particularly the marketability and perceived value of the protected product. By ensuring that the offenders compensate the damages they

have caused, justice upholds the economic rights of creators and encourages respect for IP protection, thereby fostering innovation and creativity.

At the EU level, Article 13 of the Enforcement Directive plays a crucial role in ensuring that rights holders can obtain appropriate compensation for damages. This article mandates that Member States ensure competent judicial authorities can award damages that take into account all relevant aspects, such as the negative economic consequences, including lost profits and, as an alternative, a lump sum based on royalties or fees typically due. While the directive is exclusively applied to civil proceedings, criminal courts, as demonstrated later in the report, often refer to the principles enshrined in the directive and subsequent CJEU practice to determine the damages in criminal cases. For example, criminal courts, when addressing civil claims submitted by injured parties, might refer to the directive's standards to ensure that compensation is adequate and proportionate to the harm suffered by the rights holder. This cross-reference helps maintain consistency in the enforcement of IP rights across different types of legal proceedings and reinforces the deterrent effect of awarding damages.

Determining damages in criminal cases is also crucial for establishing the seriousness of the offense. By quantifying the financial loss and impact on the victim, courts can assess the gravity of the criminal act and determine the appropriate penalties. The calculation of damages reflects the scale of the wrongdoing, which can lead to more severe legal consequences and ensures that the sanctions imposed are proportionate to the harm caused.

Purpose of damages in IP cases

01

Remedy financial losses of the rights holders, such as economic loss or the loss of a company's image and reputation

02

Deter individual perpetrators and others in the community from engaging in similar wrongful activities in the future

03

Determine the seriousness of the case and whether it merits a criminal or administrative investigation

04

Help courts to determine the appropriate penalties, taking into consideration the impact of the criminal offence

For example, the Court of Appeals in Paris ordered defendants to pay over EUR 22 million in damages to injured parties for making their copyright-protected works available for download on their websites ⁽³⁴⁾. Such significant financial penalties not only compensate the victims but also highlight the serious nature of the offense, ensuring that the punishment is aligned with the harm done.

In summary, the calculation of damages in criminal IP cases is a critical step in recognising the financial harm suffered by victims or injured parties, determining the seriousness of the offense and assisting courts in setting appropriate penalties. This approach ensures justice for victims, reinforcing a legal environment that protects IP rights while promoting innovation and creativity.

General conditions and limitations on when damages can be awarded

⇒ **Infringing act.** As the first step to claim damages in the criminal proceedings, there has to be an alleged infringing act that qualifies as a criminal offence. National legislation often indicates that if the defendant is acquitted, the court leaves the claim for damages as unheard. For example, Article 115 of the Lithuanian Criminal Procedure Code indicates that when passing the acquittal, the court leaves the claim for damages unexamined because there is no act having the characteristics of a crime or a misdemeanour. In this case, the injured parties have the right to bring the claim before civil courts ⁽³⁵⁾. Lithuanian courts have used this provision consistently and noted that if the elements of the criminal act are not established, the criminal court cannot assess the request for compensation

of damages. Both the purpose of criminal law and the general principles of law enshrined in the jurisprudence of democratic legal states presuppose the impossibility of the formation of such a legal practice when the rules of criminal law are applied in the resolution of civil disputes and the conduct of a person in a purely civil legal relationship is assessed as the commission of the relevant criminal act. Criminal offences are violations of the law that violate the rights and freedoms of people and other values protected by the Constitution in a particularly serious way. Thus, every time it is necessary to decide whether an act is a crime or other violation of the law, it is very important to assess what results can be achieved by other means that are not related to the application of criminal penalties (administrative, disciplinary or civil sanctions, etc.) ⁽³⁶⁾.

⇒ **Damages caused.** In criminal cases, the burden of proof regarding damages can rest on different parties depending on the context. If damages are a mandatory element of the crime – for instance, when the prosecution needs to prove that the defendant's actions caused financial harm to secure a conviction – the prosecution bears the burden of proof. Similarly, if the prosecution seeks to demonstrate aggravating circumstances – such as significant financial harm or damage to reputation that could show the severity of the criminal case – it must provide compelling evidence to establish the extent of those damages and their impact. This may include financial reports, market analyses or expert testimony to substantiate the scale of the harm caused by the offense.

However, when a civil claim is submitted within a criminal case, the injured party (often the IP rights holder) carries the burden of proving that the defendant's

⁽³⁴⁾ Court of Appeals of Paris, 22 January 2019, <https://www.legalis.net/jurisprudences/cour-dappel-de-paris-pole-5-ch-14-arret-du-22-janvier-2019>.

⁽³⁵⁾ Article 115 of the Lithuanian Criminal Procedure Code, <https://e->

seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.163482/asr.

⁽³⁶⁾ Siauliai District Court, Case No 1A-143-309/2015, <https://liteko.teismai.lt/viesasprendimupajeska/tekstas.aspx?id=2a6dff27-6f3f-4b49-a39e-9095d3d5ddd0>.

actions directly caused the damage. This requirement is crucial in establishing the causal link between the defendant's wrongful conduct and the harm suffered by the injured party. The injured party must provide clear, detailed evidence that demonstrates the nature and extent of the damage, as well as how the compensation sought has been calculated.

For example, Article 85 of the Bulgarian Criminal Procedure Code indicates that one of the mandatory elements of the claim for damages is the indication of the nature and amount of the damage for which the compensation is sought⁽³⁷⁾. Similarly, Article 351 of the Latvian Criminal Procedure Code indicates that the injured party must justify the amount they are requesting, both for material and moral damages⁽³⁸⁾. This means that the injured party must provide detailed evidence, such as financial statements, invoices, expert reports and other relevant documentation to substantiate their claims. In case of moral damages, the injured party can demonstrate damage to reputation, consumer confusion and other aspects. For instance, in a case of copyright infringement, the injured party might present evidence of lost sales, decreased market share or diminished licensing opportunities. The court will then examine this evidence to determine the validity and extent of the damages claimed.

Causal link between the infringing act and damages. Most jurisdictions set a requirement of the causal link between the infringing activity and the damage suffered by the victim. For example, the appellate court in Portugal indicated that the most important element for civil compensation in

criminal proceedings is that the damage arises from a crime. The court continued that it would be legally inadmissible in the criminal court to hear a civil claim that is not based on compensation for damage caused by the crime. A civil claim that adheres to criminal proceedings has only one object, which is compensation for damages arising from the crime. Compensation for damage that does not arise from a crime no longer has a penal effect of the conviction and thus needs to be assessed in accordance with civil law⁽³⁹⁾.

Most of the time, there are provisions indicating that the civil claim in the criminal case will be dismissed if the link between the civil claim and the crime is not established. For example, in Greece, France and Luxembourg, the court can dismiss the civil action if the injured party did not have damages resulting directly from the crime or if the civil party fails to prove the causal link between the defendant's actions and the injury suffered⁽⁴⁰⁾.

⇒ **Intent.** The intentional violation of IP rights is often the main element separating criminal and civil proceedings. In civil cases, the primary focus is typically on the occurrence of the infringement and the

Intentional violation of IP rights is one of the main elements separating civil and criminal proceedings. In civil cases, it is enough to prove negligence, while in criminal cases it is essential to prove that the perpetrator intentionally violated IP rights.

⁽³⁷⁾ Article 85 of the Bulgarian Criminal Procedure Code, <https://justice.government.bg/home/normdoc/2135512224>.

⁽³⁸⁾ Article 351 of the Latvian Criminal Procedure Code, <https://likumi.lv/ta/id/107820-kriminalprocesa-likums>.

⁽³⁹⁾ Court of the District of Leiria, Case No 68/11.4TAPNI.C1, 18 October 2017, <https://www.dgsi.pt/jtrc.nsf/8fe0e606d8f56b22802576c0005637dc/54441c99a1d44d12802581c2004e4c01?OpenDocument>.

⁽⁴⁰⁾ See summary of claiming damages from the offence in Luxembourg: https://e-justice.europa.eu/494/EN/claiming_damages_from_the_offender?LUXEMBOURG&member=1; in France: https://e-justice.europa.eu/494/EN/claiming_damages_from_the_offender?FRANCE&member=1; and in Greece: https://e-justice.europa.eu/494/EN/claiming_damages_from_the_offender?GREECE&member=1.

resulting harm to the victim. The intention behind the infringing act is often of secondary importance. Civil proceedings aim to provide remedies such as injunctions, monetary compensation and the return or destruction of infringing goods. The goal is to restore the injured party to the position they were in before the infringement occurred, regardless of whether the infringer acted intentionally or negligently.

However, in criminal cases, intent becomes a critical factor. For instance, Article 61 of the TRIPS Agreement mandates that Member States provide criminal procedures and penalties in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale ⁽⁴¹⁾. This requirement underscores the international recognition of intent as a defining element of criminal IP violations. Thus, for an IP infringement to be classified as a criminal offense, it generally must be proven that the infringer acted with deliberate intent to violate the rights holder's IP. This means that the offender knowingly and wilfully engaged in activities such as counterfeiting, piracy or unauthorised distribution of protected works, with the awareness that their actions were illegal and harmful.

⁽⁴¹⁾ World Trade Organization, 'Agreement on Trade-Related Aspects of Intellectual Property Rights',

<https://www.wto.org/english/docs e/legal e/27-trips 01 e.htm>.

4

Different methods to calculate damages

Due to the nature of IP rights – encompassing copyrights, trademarks, patents and industrial designs – the financial harm caused by infringement can vary widely. Damages must be calculated to accurately reflect the loss experienced by the rights holder, which can include direct financial losses, lost profits and harm to reputation. Due to the varied nature of the IP rights and the harm suffered by the rights holder, the calculation of the damages may encompass a number of methods and approaches, which unfortunately lead to different results.

The most common approaches in calculating the damages include the assessment of lost profit, assessment of royalties that would have been due if the infringer had legally licensed IP rights, market value analyses and assessment of non-pecuniary damages. Each of these methodologies has its advantages and challenges, and the choice of method often depends on the specifics of the case, the type of IP right involved and the jurisdiction's legal framework. Courts often opt for different methodologies, which can create legal uncertainty and might lead to very different approaches in similar cases.

In the following sections, the report will further analyse each of these methods, exploring how they are applied in practice and examining notable case studies that illustrate their implementation.

Methods to calculate the damage

Rights holder's lost profit

- What is the lost profit of the rights holder?
- Is value added tax (VAT) included in this calculation?
- Is there damage to rights holders if the goods did not reach the market?

Reasonable royalty

- How to assess potential royalties?
- Can royalties be awarded instead of lost profit?

Moral damage

- Can moral damage be awarded in criminal IP cases?
- How to assess the moral damage?

Lump sum

- In which cases can the court award a lump sum?
- How to determine a reasonable lump sum?
- Is evidence from a rights holder still necessary to award the lump sum?

Rights holders' lost profit

Almost all Member States consider rights holders' lost profits when calculating damages awards in IP cases. **Lost profits are generally defined as the earnings the rights holder would have earned if the criminal offence had not occurred.** This concept aims to restore the rights holder to the financial position they would have been in if their IP rights had been respected. However, despite the widespread recognition of lost profits as a critical component of damages, there is no standardised method for calculating them. Courts across different jurisdictions employ a variety of theories and approaches, often leading to inconsistent and sometimes contradictory results. Additionally, the calculation of lost profits in criminal IP cases varies significantly, depending on the type of IP right involved. In this section, we will analyse the most common practices for calculating lost profits in copyright infringement and trademark violation cases.

⇒ Copyright violation cases

In copyright cases, the most common method to calculate lost profit is based on the assumptions that each infringing sale or download directly substitutes a legitimate sale. In this case, the rights holder needs to demonstrate the number of infringing copies sold or the number of times the copyright-protected work was downloaded or streamed, and apply their profit margin to those lost sales.

The baseline for calculating damages in copyright violation cases is that one illegal sale or download equals one legal sale.

This is the method applied by the French appellate court to calculate damages in a case involving illegal movie downloads ⁽⁴²⁾. The court's process illustrates how the lost profit can be assessed in copyright cases by estimating the profit the movie companies would have made from each download if the copyright infringement had not occurred.

The French court took a five-step approach in assessing a large-scale illegal streaming service.

Step 1

The first step for the French court was to determine the basis for the calculation, i.e. the loss of the movie industries from each illegal download. In this regard, the court took the average price of the DVD at the time of the illegal activities (EUR 14.53) as the basis for the calculation of the lost profit.

Step 2

The second step was to consider the deductions. The court considered that the following costs should not be considered as part of the average amount of the loss per download.

- **VAT.** This is subtracted from the gross price to reflect the net value that would have been received by the rights holder.
- **Royalties.** Payments made to collective management organisations for the distribution of copyrights were deducted, ensuring that only the rights holder's net earnings were considered.
- **Distribution commission.** The commission paid to distributors was also deducted, as it represents a cost that would have been incurred even in legal sales.

⁽⁴²⁾ Paris Court of Appeal, 22 January 2019, <https://www.legalis.net/jurisprudences/cour-dappel->

[de-paris-pole-5-ch-14-arret-du-22-janvier-2019](https://www.legalis.net/jurisprudences/cour-dappel-de-paris-pole-5-ch-14-arret-du-22-janvier-2019).

Having taken all these additional costs out of the DVD price, the court set the loss of profit to EUR 10 per download.

Step 3

The third step was to consider different types of copyright-protected works that were affected by illegal downloading. In this regard, the court indicated that the rights holders suffer greater prejudice when movies exclusively available in cinemas are made available for illegal downloading. This calculation is less straightforward, but could potentially be more harmful due to the high value of initial box office earnings. In this case, the injured parties did not submit any calculation to show the loss per download, so the court set a fixed amount of loss of profit per download to EUR 8. The court also applied the same deductions to this amount and concluded that the loss of profit for each download amounts to EUR 5.

Step 4

The fourth step was to equate the downloads to the DVD sales. The court took the position that each illegal download should be equated to the sale of one DVD. This straightforward equivalence allowed the court to use the adjusted DVD price as a basis for calculating damages per illegal download. Similarly, the court concluded that each download of the movie exclusively available in cinemas should be multiplied by the set amount of loss of profit per film.

Step 5

The fifth and final step in awarding the damages was multiplication by the number of downloads. Once the loss of profit per download was established, the court multiplied this amount by the total number of illegal downloads. This method provided a clear and quantifiable way to measure the financial impact on each movie producer affected by the piracy.

Final result

Columbia Pictures Industries Inc.	29 131 downloads of movies available only in cinemas	EUR 2 280 933
	409 577 downloads of other movies	
Disney Enterprises Inc.	48 106 downloads of movies available only in cinemas	EUR 3 939 023
	710 835 downloads of other movies	
Paramount Pictures Corporations	100 418 downloads of movies available only in cinemas	EUR 3 082 229
	440 977 downloads of other movies	
Tristar Pictures Inc.	22 877 downloads of other movies	EUR 114 385
Twentieth Century Fox Corporation	120 739 downloads of movies available only in cinemas	EUR 5 726 257
	952 069 downloads of other movies	
Universal City Studios LLP	232 558 downloads of movies available only in cinemas	EUR 3 687 809
	365 469 downloads of other movies	
Warner Bros Inc.	57 353 downloads of movies available only in cinemas	EUR 3 326 474
	573 530 downloads of other movies	

This method applied by the French court highlights several important aspects of damage calculation in IP cases. It is of utmost importance to precisely calculate the financial aspect of the case, i.e. which aspects were considered in determining the price per download and which elements should be excluded to be able to reflect actual economic loss. The court further needs to precisely determine the number of downloads of each category of movie to be able to determine the precise amount for the damages.

The key element is to determine the actual economic loss of the rights holder

To accurately assess the damages suffered by rights holders in copyright infringement cases, courts require specific and detailed information.

01

The number of illegal downloads, streams or sales. This data is crucial for quantifying the extent of the infringement and estimating the potential revenue loss.

02

The exact cost of a legitimate view or purchase. This includes determining the price of a legal transaction, whether through cinema tickets, DVDs or streaming services. This helps establish the baseline for calculating lost revenue.

03

Exclusion of certain costs. Costs such as VAT, distribution expenses and rights management fees should be excluded from the calculation to ensure that only the net revenue loss is considered.

⇒ Can the calculation of damages in illegal IPTV cases follow the same principles?

The French appellate court's approach to calculating damages in copyright infringement cases involving illegal downloads serves as a strong example of how lost profits can be assessed. By carefully considering various factors, such as the average price of a DVD, necessary deductions and the specific context of the infringement, the court ensured that the damages awarded were fair and reflective of the actual harm suffered by the rights holders. This approach might be useful in calculating the damages in cases of illegal downloading via torrents; however, with evolving technology, online piracy is moving towards subscription-based illegal IPTV services. In these cases, the calculation of damages based on each download could disproportionately raise the evaluation of the lost profit of the rights holders.

The calculation of damages in cases of illegal IPTV services was addressed in great detail by the Swedish courts. The courts recognised that illegal streaming causes significant harm to the injured parties because the subscription fees, which are an essential part of their business, are not collected. Swedish court practice follows a model for calculating fair compensation based on the fees that the affected companies would have received through subscriptions for the actual use. It is irrelevant how much the service was actually used; the main consideration is that the service was illegally made available to users. This model also generally excludes the VAT.

This model has been approved and used by Swedish courts in multiple cases, providing a consistent and equitable method for assessing damages. By incorporating these factors, the courts ensure that the compensation accurately reflects the financial loss suffered by the legitimate

Swedish model for calculation of damages in illegal IPTV cases

Swedish courts generally accepted that fair compensation should be calculated by considering three key factors.

The number of users who purchased illegal subscriptions

The duration (in months) for which these users paid for the subscriptions

The fees that the affected companies would have received for equivalent services if the subscriptions had been legal

service providers due to illegal streaming activities ⁽⁴³⁾.

A notable example of this model of damage calculation can be found in a criminal case involving both illegal card-sharing services and IPTV ⁽⁴⁴⁾. In this case, several individuals were found guilty of illegally decoding protected broadcasting services and making them available to users for a paid subscription. Over time, these individuals expanded their operations to include illegal IPTV services. The illicit activities impacted several broadcasting companies in Sweden, specifically three companies related to illegal card sharing and another three companies related to illegal IPTV. Upon

determining that the individuals had indeed violated the IP rights of these broadcasting companies, the court applied the established model to calculate the damages.

Step 1

The first step was to determine the average price of subscription of legal services. This step involved reviewing evidence submitted by the affected companies to determine a comparable subscription fee for the services that were provided illegally. The courts carefully evaluated the documentation supporting the amounts proposed by the affected companies. In the absence of any objections, the courts approved the amounts as indicated. It should be noted that based on previous court practice, these amounts excluded the VAT.

Based on this, the subscription fees for the illegal card-sharing services were set as follows: SEK 651 (approximately EUR 56) per month for Canal Digital, SEK 1 063 (approximately EUR 92) per month for Com Hem, and SEK 485 (approximately EUR 42) per month for NENT. For the illegal IPTV services, the monthly fees were set at SEK 279 (approximately EUR 24) for C-More, SEK 510 (approximately EUR 44) for NENT and SEK 63 (approximately EUR 5) for Discovery.

Step 2

The second step was to determine the number of users. In this regard, the courts relied on the information stored on the network's customer data (customer server), which contained detailed files for each user, marking them either active or passive (also known as 'past') subscribers to the criminal service. For the illegal card-sharing services,

⁽⁴³⁾ See, for example, Case No. B-2019-15448, Case No. B-2020-7020, Case No. B-2017-16838, Case No. B-2020-6674 and Case No. B-2021-15213.

⁽⁴⁴⁾ Patent and Market Court, Case No 6674-20, 16 April 2021.

the user count was broken down as follows: 4 601 users accessing Canal Digital's channels, 1 602 users accessing Com Hem's channels and 4 600 users accessing NENT's channels. For the illegal IPTV services, the numbers were 1 609 users accessing C-More's channels, 1 601 users accessing NENT's channels and 1 457 users accessing Discovery's channels.

However, these numbers did not reflect how the user base changed over the duration of the illegal operations. To address this, the court assumed a **linear growth model**, starting with one user at the beginning of the services and increasing steadily to the numbers recorded at the end of the illegal activities. This method allowed for an estimation of the average number of users per month, thereby providing a more accurate reflection of the total usage over time.

Despite this approach, the court acknowledged that there could have been instances where a single user had multiple subscriptions or other complicating factors that could affect the accuracy of the user count. Recognising the importance of compensating the affected companies for the actual use of their services, the court determined that reasonable compensation should include a reduction to account for these uncertainties. To ensure fairness and accuracy, the court decided that a well-balanced reduction would be 30 % of the total calculated users. This reduction was intended to provide a margin that adequately considered potential discrepancies and ensured that the affected companies are not overcompensated.

After considering these aspects, the court set the number of users for the illegal card-sharing services to the following: 1 566 users accessing Canal Digital's channels, 546 users accessing Com Hem's channels and 1 566 users accessing NENT's channels. For the illegal IPTV services, the numbers were 470 users accessing C-More's channels, 461

users accessing NENT's channels and 403 users accessing Discovery's channels.

Step 3

The third step was to determine how many months the users paid for the illegal service. In this regard, the court used the statements of the injured parties claiming that the period during which the transmissions were made available corresponded to the timeline of the crime. Thus, based on the statements of the injured parties, the number of months for the illegal card-sharing service was set to 35 months, while for the illegal IPTV it was set to 29 months.

Final result

Following this method, the court multiplied the price of subscription by the number of users and the number of months the users paid for the illegal services. This led to awarding nearly SEK 94 million (approximately EUR 8 million) in damages to affected companies, both for illegal card sharing and IPTV services.

This calculation was later confirmed by the appellate court and used in other cases. This was the first case in Sweden to follow this comprehensive model of calculation of damages in illegal card sharing and IPTV cases, and almost exclusively followed in the other cases.

The model's consistency across multiple cases highlights its effectiveness in addressing the harm caused by illegal streaming and ensuring that affected companies receive fair compensation for their financial losses. This approach relies on detailed analysis, allowing for a reasonable estimation of the number of users and the duration of illegal service usage. Courts often

involve experts to examine evidence from servers and provide comprehensive explanations for the figures derived. The importance of thorough analysis was confirmed in a recent decision by a Swedish appellate court, which upheld the damage calculation model used by the first instance court but adjusted the number of users due to insufficient evidence presented in the first instance court's conclusion ⁽⁴⁵⁾.

A similar approach has been used in other countries. An example is the US Gears TV case, where the methodology of the calculation of damages is laid down in the sentencing memo of the US Gears case ⁽⁴⁶⁾. In this case, several defendants fraudulently obtained copyrighted content from a number of cable providers and streamed it to paid subscribers as an illegal internet streaming service known as Gears TV. The defendants generated tens of millions of dollars of illicit revenue.

In the US legal system, two distinct terms are used in IP crime cases: '**infringing amount**' and '**actual loss**'. The **infringing amount** is used to determine the sentence and represents the overall scale of the illegal activity, while **actual loss** refers to the financial damage caused to the injured parties and is used to calculate compensation. In the Gears TV case, the court applied a methodology similar to that

of the Swedish case for calculating the infringing amount, focusing on the number of users and the duration of illegal service usage. However, for **actual loss**, the US court added an extra consideration – how many users would have subscribed to legal IPTV services. This case illustrates how different jurisdictions may apply varying methodologies in calculating damages in IPTV cases. While the Swedish court did not address the question of how many users of illegal streaming services would have switched to legal services, this issue can be relevant in some jurisdictions. In those cases, determining how many users would have opted for legitimate services is an important step to demonstrate the actual impact of illegal streaming on rights holders.

In the US court system, the infringing amount is typically calculated by **multiplying the number of infringing items by the retail value of the genuine or legitimate item**. This calculation is straightforward in cases involving tangible goods, such as a specific number of illegally sold movie DVDs, as demonstrated with the French court's decision above. However,

In US court practice, the infringing amount in IP cases is calculated using this formula:

$$\text{Number of infringing items} \times \text{Retail value of genuine or legitimate items}$$

How was the model for infringing amount adapted to illegal IPTV cases?

Number of infringing items	=	Number of months customers subscribed to the illegal services
Retail value of genuine or legitimate items	=	Price of legitimate monthly subscription

⁽⁴⁵⁾ Patent and Market Court of Appeal, Case No 14039-23, 5 July 2024.

⁽⁴⁶⁾ United States District Court, Sentencing Memorandum, Case No 21-367-1, 27 February 2023.

How to determine the number of months of illegal IPTV use if the beginning of the illegal act is unknown?

Revenue model

This model is based on the illegal revenue earned by the defendants from the illegal IPTV services. The defendants earned approximately USD 34 million from monthly subscriber fees. Initially, the monthly subscription fee was as low as USD 5, increasing to USD 15 in 2018 and to USD 19 in 2019. Various subscription packages were available, some cheaper and some more expensive. To simplify, the prosecution averaged the monthly subscription fee to USD 19. By dividing the total revenue (USD 34 million) by the average monthly fee (USD 19), they calculated a total of 1 832 968 subscriber months. Multiplying this figure by the average subscription price per month for legitimate services (USD 120.68), the total estimated infringement amount is approximately USD 221 million.

Subscriber records model

This method is based on the number of subscribers in Gears TV's customer database. The database contained the start and end dates of services for each customer and their last login date. However, it did not include information about approximately 150 000 customers who purchased subscriptions through resellers. For these customers, the prosecution conservatively estimated a single month of subscription. Based on this, they calculated a total of 1 390 595 subscription months. Multiplying this number by the average subscription price per month for legitimate services (USD 120.68), the total estimated infringement amount is approximately USD 167 million.

determining the individual retail value becomes significantly more challenging in cases of illegal streaming, especially when it involves hundreds of TV channels over an extended period, such as 3 years.

In the Gears TV case, the prosecution faced difficulties in assessing the retail value due to the sheer volume and duration of the infringing activity. Instead of attempting to determine the retail value of each individual stream, the prosecution opted to base the calculation on the cost a user would have paid to lawfully access the services. In this scenario, **the price of a legitimate monthly cable or satellite subscription was used as the 'retail value of infringed goods'.**

To calculate the infringing amount, the prosecution considered **the number of months that customers subscribed to the illegal services as the 'number of infringing items'.** By multiplying the legitimate monthly subscription fee by the total number of months each customer used

the illegal service, the prosecution could estimate the total financial impact of the infringement. This method provided a practical and justifiable means of calculating damages.

Having established the methodology, the next step was to estimate the price a user would have had to pay to legitimately obtain the content provided by the Gears TV services. To accomplish this, the prosecution examined each of the affected providers and estimated how much each provider would charge for the services in question. This estimation was based on various subscription plans and billing information provided by the legitimate service providers. The resulting figures were averaged, leading to an estimated monthly subscription cost of USD 120.68. This amount was reached after deducting taxes, fees and additional charges for items such as set-box rental.

This case is an example of how the prosecution addressed the situation when

the precise beginning of the illegal IPTV services is unknown. To determine the number of months the subscribers used illegal IPTV services, the prosecution used two methods: the revenue model and the subscriber records model. Based on the revenue model, the total estimated infringement amount was calculated as USD 221 million, while based on the subscriber records model, the total amount was approximately USD 167 million.

Ultimately, the prosecution chose the more conservative estimate of USD 167 million. This approach underscores the complexity and challenges involved in accurately assessing the financial impact of illegal IPTV services, while also ensuring a fair and justifiable estimation of the damages incurred.

Despite this calculation, the prosecution indicated that the infringement amount can only be used to determine the defendants' sentences. The restitution for the injured parties should be based on the 'actual loss', which in copyright infringement cases equates to the profit the victim lost on sales that were directly diverted from the victim as a result of the defendant's criminal activity⁽⁴⁷⁾. In the Gears TV case, the calculation of the actual loss suffered by the legitimate providers involved several steps and required the expertise of an appointed expert. The expert considered the following elements.

Number of infringing products. This involved determining the total number of subscriptions to the infringing service.

Sales diversion analysis. The expert assessed how many sales of the infringing products were diverted from legitimate service providers. This was based on market data regarding individuals' likelihood to purchase cable subscriptions, segmented by age cohort and market share of the respective companies. A key element was defining how many people would have

purchased legitimate services if the illegal IPTV service had not been available. The expert analysed the age group demographics and used existing research to estimate the percentage of individuals who would have opted for legitimate cable TV services. Based on this analysis, the expert excluded around 40 % of the subscribers, indicating that these individuals would not have purchased legitimate cable plans, regardless of the availability of illegal IPTV.

Adjustment for profit margin. The final step was to adjust the estimated lost revenue by the profit margin of each provider. The profit margins were estimated based on publicly available information from each company. The analysis concluded that the actual lost profit of the injured parties was approximately USD 24 million.

The terms of infringing amount and the actual loss experienced by the rights holder differ significantly.

While the infringing amount does not require assessing how many illegal service users would have used legal alternatives, calculating this is essential to determine the actual loss.

In the Gears TV case, the prosecution faced the challenge of determining the retail value of illegal streaming services and opted to use the legitimate monthly subscription fee as a basis for calculation. This resulted in an estimated infringement amount of USD 167 million, reflecting the economic impact of the illegal operation. However, for restitution purposes, the actual loss was calculated based on diverted sales and profit margins, leading to a more accurate assessment of USD 24 million in lost profits for the legitimate providers, highlighting the difference between the broader

⁽⁴⁷⁾ United States District Court, Restitution Memorandum,

infringement cost and the specific actual loss incurred by the injured parties.

The methodologies for calculating damages in cases of copyright infringement reveal significant differences between traditional media piracy, such as selling illegal DVDs or downloading movies via torrent websites, and modern digital piracy, such as illegal IPTV services. The Swedish court system sets a strong example of how damages should be calculated in cases of illegal broadcasting via card sharing or IPTV services. This model focuses on the price of subscription fees that would have been charged for legal services, multiplied by the number of users and the duration of the illegal services. A similar approach is used in the US court system to determine the infringement amount. However, when calculating the amount of damages to be compensated to the injured parties, the US courts incorporate the concept of 'actual loss'. This involves adding an additional element to the calculation: estimating how many users of illegal services would have actually subscribed to legal services.

Calculation of damages in copyright violation cases

STEP 1

Determine the price of the genuine or legal product

- Price of the cinema ticket.
- Price of a legitimate subscription.
- Price of a legitimate movie rental.

To avoid overcompensation, it is crucial to determine the exact price of the genuine product. The primary source for this information is typically provided by the injured parties, though expert opinions may also be used to establish the accurate price.

STEP 2

Determine the number of illegal downloads or the time period illegal services were used

- Number of illegal sales.
- Number of illegal streams or downloads.
- Time period illegal services were used.

The number of illegal sales, downloads or streams can be estimated through expert analysis of data from the illegal services' records and servers.

If the duration of the illegal activity is unknown, two approaches can be used:

- a revenue model based on the illegal gains; or
- a subscriber records model based on the number of subscribers.

STEP 3

Number of users of illegal services and how this number grew over time

- Number of subscribers to illegal services over the entire time period.
- Consider an analysis on how many users would have actually purchased legal services.
- Consider a general reduction of this number to avoid overcompensation.

This information can be derived from the illegal service's user records.

In case only the final number is known, a linear growth model is generally used to calculate the growth of the number of subscribers over the period of illegal use of the service.

While it is not common in EU countries to assess how many users of illegitimate services would use legitimate service, this is a common practice in the US, where this is done as an expert's opinion.

STEP 4

Determine which costs should be excluded

- Exclude VAT.
- Exclude related distribution and rights management costs.

These are usually the costs associated with legal distribution of services, which the rights holders do not experience in case of illegal services. For this reason, the courts generally tend to exclude them from the calculation of damages methodology.

⇒ Trademark violation cases

In trademark violation cases, calculating lost profit as a measure of damages is a crucial element. The determination of damages in these cases relates to the unique nature of trademarks as intangible assets, whose value stems from the resources and time the trademark holder invests in creating a product and building its reputation. This makes it challenging to quantify the actual economic consequences of trademark infringement. Although many factors must be considered in calculating damages, the most common approach is to estimate the loss of profit incurred by the trademark holder. This involves assessing the financial impact on the trademark holder's business due to the unauthorised use of the trademark, which often requires detailed analysis and expert testimony to ensure accuracy and fairness in the compensation awarded.

How to determine the lost profit?

As for the factors used to undertake the calculation of lost profits, it is often the net profit that is taken into consideration. The number of infringing products (this is sometimes reduced due to the difference in

quality and higher price of the original product) is multiplied by a price per product as determined by the court. However, this formula is not always straightforward and there are many factors that the courts need to take into consideration before determining the price of the product.

Can the courts use the retail price of the original product?

In counterfeiting cases, one of the biggest challenges is accurately calculating the financial loss incurred and determining whether those who bought counterfeit goods would have actually purchased the genuine products. This complexity arises because genuine products are typically much more expensive than their counterfeit counterparts. As a result, it is often unclear whether consumers who opted for the cheaper counterfeit items would have been willing or able to pay the higher prices for authentic goods. This discrepancy makes it difficult to assess the true economic impact on legitimate manufacturers and to estimate the lost sales accurately. Moreover, consumer behaviour varies widely, with some buyers knowingly choosing counterfeits for cost reasons, while others might purchase genuine products if the counterfeit options were unavailable.

Despite these complexities, quite often the national courts choose to determine damages based on the value of the original goods. For example, in a case involving the sale of counterfeit pesticides, the Lithuanian appellate court confirmed that the retail value of the genuine products should be considered when calculating damages ⁽⁴⁸⁾. In this instance, the court relied on an expert's assessment to determine the cost of

The main formula for calculating the lost profit in counterfeiting cases

Number of
infringing
items



Price per
product as
determined
by the court

⁽⁴⁸⁾ Siauliai Regional Court, Case No 1A-1 43-309/2016, 9 April 2015,

<https://liteko.teismai.lt/viesasprendimupaiska/tekst.aspx?id=2a6dff27-6f3f-4b49-a39e-9095d3d5ddd0>.

9 kilograms of authentic pesticides. Additionally, the court followed previous legal practice by including VAT in the final calculation.

The Bulgarian Supreme Court of Cassation adopted a similar approach to determining damages in counterfeiting cases, emphasising the retail value of original goods as a key factor in compensating injured parties ⁽⁴⁹⁾. The court referred to the Bulgarian Trademarks and Geographical Indications Act, which provides guidelines for calculating damages, suggesting that all circumstances, including the perpetrator's revenue, should be considered ⁽⁵⁰⁾. In cases where information is insufficient, the damages should be based on the retail value of lawfully produced products that are identical or similar to the counterfeited goods.

However, subsequent Bulgarian court decisions indicate that using retail value as an absolute presumption for the amount of damages is not always accurate. For instance, in a case involving counterfeit Rolex watches, the court relied on Article 13 of the enforcement directive, which outlines several criteria for determining damages in counterfeiting cases.

The court emphasised that all these elements must be considered to establish the actual loss to the rights holder ⁽⁵¹⁾. The price of the original goods, especially in cases where the counterfeit goods were sold for much less, can lead to unfair profit of the rights holders. In this particular case, the court established that the retail value of Rolex watches is BGN 45 000 (approximately EUR 23 000) per watch while the counterfeit watches were sold for BGN 300 (approximately EUR 150) per watch. In the situation when the price difference between the original and counterfeit goods is so great, the element of

⁽⁴⁹⁾ Supreme Court of Cassation of the Republic of Bulgaria, 31 May 2013, <https://www.vks.bg/talkuvatelni-dela-osnk/vks-osnk-tdelo-2013-1-reshenie.pdf>.

⁽⁵⁰⁾ Articles 76a and 76b of the Trademarks and Geographical Indications Act,

Article 13 of the Enforcement Directive sets criteria for calculation of damages

01

Damages can be based on the **actual prejudice** (e.g. the rights holder's lost profits, the infringer's unfair profits, moral prejudice and other negative economic consequences).

Lost profits are usually defined as profits which would have been earned by the rights holder in the absence of the infringement, or which could have been justifiably expected. Rights holders appear to find it very difficult to prove that they would have earned the same profits as the infringers, particularly where the infringers offer their products under conditions that significantly differ from those of the legal channels (e.g. lower prices, lower manufacturing costs, absence of related services).

02

Alternatively, damages can be awarded **as a lump sum** based on at least the (single) amount of royalties which would have been due if the infringer has requested authorisation to use the intellectual property right(s) in question (e.g. if an infringer had concluded a licensing agreement with a rights holder).

Awarding a lump sum is still not allowed in all jurisdictions. However, courts generally tend to award a lump sum when deciding on potential royalties or moral damages. Often lump sum damages are available only if damages cannot be calculated otherwise, for example in cases when the actual prejudice cannot be calculated precisely.

<https://lex.bg/en/laws/ldoc/2134680576>.

⁽⁵¹⁾ Nessebar District Court, Case No 246/2023, 26 September 2023, <https://dela.bg/Acts/64c61f48-8773-44a5-a0e3-647a605b7a00>.

deception of the customer is clearly not present. Each buyer was clearly aware of the counterfeit nature of the goods and intended to purchase them. For this reason, the court concluded that the trademark owner objectively could not suffer the damage equal to the total price of the original goods.

A similar conclusion was reached by Polish courts in a case involving counterfeit goods sold in a local market ⁽⁵²⁾. The court noted the importance of considering whether buyers of counterfeit goods would actually purchase the original goods if the counterfeit versions were unavailable. It concluded that the value and quality of the counterfeit goods indicated that these customers would not have bought the genuine goods, and thus, selling such counterfeits did not deprive luxury brands of potential customers. This suggests that calculating damages based solely on the retail value of original goods does not always accurately reflect the actual loss suffered by rights holders.

The French Intellectual Property Code established similar elements to Article 13 of the enforcement directive and indicates that to determine damages, the court must consider the negative economic consequences of the infringement, including loss of profits, non-material damage and profits made by the infringer ⁽⁵³⁾. This demonstrates that the retail value of the goods is just one of several factors that can help ascertain the actual damage incurred.

The Bulgarian case is a good example of a criminal court incorporating civil law principles to establish the standard for calculating damages in a criminal proceeding, despite the enforcement directive being exclusively applicable to civil matters. By integrating these civil guidelines, the court demonstrated a commitment to a comprehensive and equitable approach to determining damages, ensuring that the

compensation accurately reflects the rights holders' losses while addressing the complexities of criminal counterfeiting cases. This also shows that the determination of damages in counterfeiting cases cannot follow only one pre-defined criterion. This often requires a look into the case as a whole and the consideration of various aspects, including (a) whether there was an element of deception, (b) whether the customers buying counterfeit goods would buy genuine luxury goods, and (c) whether the rights holder would give a license to sell the product where it was confiscated, if the licensing fee is included in the calculation of damages.

A general principle in assessing loss of profit is to compare the actual situation with the hypothetical scenario where the counterfeiting did not occur. To this end, the Paris Court of Appeals has developed a series

Retail value cannot be the only element in assessing damages

While the retail price of genuine goods is an important factor for courts to consider when determining damages, relying solely on this criterion could lead to overcompensation. In counterfeiting cases, where proving lost profits is challenging – especially when infringing activities diminish the value of legal sales – courts must also consider other factors.

The price of counterfeit goods and the profits made by the perpetrator are examples of such factors, which should be evaluated on a case-by-case basis.

⁽⁵²⁾ District Court for Kraków-Podgórze in Kraków, Case No. II K 651/16/P, 20 December 2016, <https://www.saos.org.pl/judgments/270337>.

⁽⁵³⁾ Article L716-14 of the French Intellectual Property

Code, <https://www.lexbase.fr/texte-de-loi/art-171614-code-de-la-propriete-intellectuelle/L70161ZU.html>.

US sentencing guidelines – how to assess retail value

According to the Federal Sentencing Guidelines on counterfeiting, courts should use either the retail value of the trademark-protected item or the counterfeit item to determine the infringement amount. These guidelines specify criteria for when the retail value of the original product should be used.

The infringing item is identical or substantially equivalent to a potential customer.

The retail price of the counterfeit item is difficult to evaluate without unduly prolonging criminal proceedings.

The retail price of the counterfeit item is not less than 75 % of the original item's price.

The retail value of the original item provides a more accurate assessment of the pecuniary damage to the rights holder.

In cases involving counterfeit labels or packaging not affixed to goods but which, if used, would appear identical or substantially equivalent to a potential customer.

In other cases, the guidelines suggest using the retail price of the counterfeit good.

of factsheets to guide courts on calculating economic damage in counterfeiting cases ⁽⁵⁴⁾. These factsheets apply to both civil and criminal cases and employ complex accounting and financial methods to calculate the damage. The main principle is to determine what the rights holder would have earned if the infringing act had not taken place. This method requires a detailed assessment of the rights holder's financial records and an understanding of market changes, compelling the courts to employ competent experts to make accurate determinations.

While this approach seems to offer the most accurate calculation of lost profit, it is also a very complex assessment that criminal judges are often reluctant to undertake. For example, Polish courts have acknowledged in several cases that while there is no doubt that damage occurs to the rights holder in cases of counterfeiting, precisely calculating this damage is a difficult task ⁽⁵⁵⁾. Nonetheless, the courts have also concluded that the difficulty in determining the exact amount of compensation cannot be a reason to withhold compensation entirely. The nature of the crime of counterfeiting requires the court, or a court-appointed expert, to adopt a methodology that arrives at a reasonable amount.

The Polish court emphasised that the primary source of information should be the injured party's estimation of their loss due to the crime of counterfeiting. They are the most knowledgeable about their business and the costs invested in the production of the particular item. These estimations need to be assessed against several factors, particularly the evaluation of the profits the injured party would have made if the harmful event had not occurred. Other factors could include the value of the counterfeit goods, the income the perpetrators made from selling counterfeits

⁽⁵⁴⁾ Compensation for economic damage, Methodological Sheets and Glossary – 3rd Edition (2024), <https://www.cours-appel.justice.fr/paris/la-reparation-du-prejudice-economique>.

⁽⁵⁵⁾ Regional Court in Piotrków Trybunalski, IV Ka 746/18, 15 February 2019, [https://orzeczenia.piotrkow-tryb.so.gov.pl/content/\\$N/152515000002006_IV_Ka_000746_2018_Uz_2019-02-15_002](https://orzeczenia.piotrkow-tryb.so.gov.pl/content/$N/152515000002006_IV_Ka_000746_2018_Uz_2019-02-15_002).

and an analysis of the company's financial statements to determine the potential profit it would have made if the crime had not occurred.

Assessing all of these elements allows the courts to reach a compensation amount that not only ensures appropriate reparation for the injured party but also prevents undue compensation. By considering the injured party's insights, the perpetrator's gains and a thorough financial analysis, the courts can determine the true extent of the damage and the appropriate compensation more accurately and fairly. This comprehensive approach balances the need for fair restitution with the complexity of calculating economic loss in counterfeiting cases, ultimately contributing to a more just legal process.

A general principle in assessing loss of profit is to compare the actual situation with the hypothetical scenario where the counterfeiting did not occur

01

Assess the injured party's financial records to determine potential profits the company would have made if the crime of counterfeiting did not occur.

02

Such an assessment requires detailed analysis of the company's financial records, which are often deemed business secrets. To do so, the expert in financial matters could make the assessment and provide the opinion to the court.

The Swedish court has taken a different approach in calculating the actual loss ⁽⁵⁶⁾. As a first step, the court rejected the model provided by the injured parties, which was based on the retail value of the original goods multiplied by the number of counterfeit goods. The court indicated that retail price needs to be evaluated against several elements specific to each case. In this case, the court noted that the injured parties did not have a single set retail price, as this could vary based on discounts regularly applied to different retailers, which could be even up to 49 %. Taking this aspect into account, the court set a retail price of 56 % of the price to the consumer, excluding the VAT.

These examples illustrate the diverse practices within EU courts concerning the calculation of damages in counterfeiting cases. While most courts consider the loss of profits as the primary criterion, the methods for calculating this loss vary significantly. Typically, courts start their analysis with the retail price of the original goods multiplied by the number of infringing items. However, they also recognise that this alone cannot capture the full extent of the damages.

Overall, while there is common recognition of the need to compensate for lost profits, the methods and criteria used to determine these losses vary. This highlights the complexity of addressing IP infringements and underscores the importance of considering multiple factors to ensure fair and accurate compensation for rights holders. By considering the specific circumstances of each case and employing a detailed and nuanced approach, courts can better achieve just outcomes in counterfeiting cases.

⁽⁵⁶⁾ Patent and Market Court, Case No. B6871-14, 13 October 2016,

<https://lagen.nu/dom/pmod/2018:7>.

How to assess whether the counterfeit goods were placed in the market

Court practices across various jurisdictions vary significantly in determining whether counterfeit goods that never reach the market can still cause damage to victims. The primary question revolves around whether the victim suffers any damage if the counterfeit products are intercepted before being sold. The issue of compensation for damages often differs from the assessment of the crime of counterfeiting itself.

In cases where the criminal offense of counterfeiting is considered formal – meaning that it does not require harmful consequences as part of the crime’s elements – the offense is completed with the mere use of the counterfeit goods. Therefore, the sale of the goods in the market is often not a required element of the criminal offense. In such instances, it is sufficient to identify the counterfeit goods and establish their value, which is often used to determine the scale of the criminal offense. For example, the Spanish Supreme Court indicated that the Spanish Criminal Code does not require determining the specific number of counterfeit products, nor does it mandate consideration of the goods’ value. The key element of this article is the use of trademarks for commercial purposes, which infringes on the rights of the trademark holders ⁽⁵⁷⁾.

However, when determining the amount of compensation, it is necessary to assess whether the victims were genuinely harmed. In this regard, and in the absence of clear guidance in national legislation, court practices vary significantly. Some courts,

such as those in the Netherlands, place substantial emphasis on whether the counterfeit goods were actually placed on the market ⁽⁵⁸⁾. The Dutch courts view this as a complex issue that can unduly burden criminal courts, often referring civil claims in IP cases to civil courts for resolution. Similarly, Latvian courts have ruled that there is no evidence of damage if counterfeit goods were never offered for sale or sold, thus negating claims of harm ⁽⁵⁹⁾.

In contrast, the Swedish court, when assessing the number of products to consider in calculating damages, indicated that not only counterfeit products that were sold, but also those still in stock but placed for sale, should be considered ⁽⁶⁰⁾. The court reasoned that once such products are marketed, they are considered as being offered for sale.

Polish courts have also taken a more nuanced approach. In a case concerning an attempt to sell counterfeit goods, the court acknowledges that if the sale of counterfeit goods is halted before the products reach the market, it cannot be objectively concluded that the original products’ sales were negatively impacted ⁽⁶¹⁾. However, they also allow for the possibility of damages if the injured party can demonstrate lost income from licensing fees if the injured parties prove such loss.

Furthermore, Polish courts have recognised that merely offering counterfeit goods for sale can harm the injured party’s reputation, cause consumer confusion and reduce consumer confidence in the original products. In addition, offering products marked with identical trademark signs at a much lower price than the official price affects the market behaviour of consumers

⁽⁵⁷⁾ Spanish Supreme Court, Case No. STS 611/2023, 13 June 2023, <https://vlex.es/vid/939916136>.

⁽⁵⁸⁾ District Court Gelderland, 18 December 2013, ECLI:NL:RBGEL:2013:5827, <https://uitspraken.rechtspraak.nl/details?id=ECLI:NL:RBGEL:2013:5827>.

⁽⁵⁹⁾ Kuzeme Regional Court, Case No. KA02-0181-15/6, 30 November 2015, <https://manas.tiesas.lv/eTiesasMvc/nolemumi/pdf/246252.pdf>.

⁽⁶⁰⁾ Patent and Market Court of Appeal, Case No. B9635-16, 25 January 2018, <https://lagen.nu/dom/pmod/2018:7>.

⁽⁶¹⁾ District Court in Jelenia Góra, Case No. VI Ka 96/15, 31 March 2015, [https://orzeczenia.jelenia-gora.so.gov.pl/content/\\$N/155005000003006_VI_Ka_000096_2015_Uz_2015-03-31_002](https://orzeczenia.jelenia-gora.so.gov.pl/content/$N/155005000003006_VI_Ka_000096_2015_Uz_2015-03-31_002).

and might indeed divert them from buying original goods in the future. Thus, the court concluded that even the attempt to sell the counterfeit goods can cause damage to the injured party; they consider such actions as potentially causing non-pecuniary damage rather than a direct loss of profits.

Similarly, Lithuanian courts have ruled that even sales to undercover police agents can lead to damages for victims. The court rejected the defence's arguments that no damage occurred simply because the counterfeit goods never reached the market, emphasising that the interception of these goods by law enforcement does not negate the potential harm to the victim because the goods did not reach the market because of circumstances beyond the defendant's control ⁽⁶²⁾.

Court practices across different EU jurisdictions are varied in addressing

whether counterfeit goods that do not reach the market can cause damage to victims. While some courts emphasise the physical placement of counterfeit goods on the market as a key factor in determining damages, others consider the broader implications of offering counterfeit goods for sale, including potential reputational harm and consumer confusion. Despite this, it is generally accepted that counterfeit goods that were not placed for sale cannot cause loss of profit to the victims. In these cases, the court should assess other type of damage to the victims – such as loss of profit from licensing fees or moral damage. These aspects are addressed in more detail in the following sections.

Different national approaches on whether the counterfeit goods need to reach the market to cause damage to the rights holder

View 1

Since the assessment of the crime of counterfeiting and the calculation of damages involve different considerations, it is possible for a court to determine that no damages were caused even if the crime itself is established. This differentiation arises because the legal criteria for proving a criminal act do not always align with those required for demonstrating financial harm.

Courts often conclude that if the counterfeit goods were not actually placed on the market, the rights holder did not suffer any damage, as the sale of the original goods was not impacted.

View 2

Some jurisdictions adopt a more nuanced approach, where courts carefully consider the specific circumstances of each case when assessing damages.

- **Were the goods already advertised for sale?** If the counterfeit goods were advertised, even those still in stock could be considered as causing damage to the victim.
- **Why did the goods not reach the market?** If the goods were prevented from reaching the market because they were sold to undercover agents, they might still be regarded as causing damage.

View 3

Some jurisdictions recognise that the mere manufacturing of counterfeit goods can cause harm to the victims, even if the goods never reach the market. This harm extends beyond direct financial losses and touches on more intangible aspects, such as the damage to the brand's reputation or the potential loss of customer loyalty. These types of harm are often categorised as non-pecuniary damages, which differ from the traditional assessment of lost profits. While lost profits are calculated based on measurable financial impact, non-pecuniary damages require a more nuanced evaluation of how the counterfeit activity has affected the brand's intangible assets.

⁽⁶²⁾ Siauliai District Court, Case No 1A-143-309/2015, <https://liteko.teismai.lt/viesasprendimupaiseska/tekst>

as.aspx?id=2a6dff27-6f3f-4b49-a39e-9095d3d5ddd0.

Calculation of damages in copyright violation cases

The number of infringing products is multiplied by a price per product as determined by the court

The starting point is always the information provided by the victims / injured parties

What happens if the rights holder does not provide sufficient information?

The market situation can also be assessed by an expert, and courts take different approaches.

- Many courts claim that this is not a reason to dismiss the claim for damages and that fair remuneration should be determined on the reasonable assessment of the market in question.
- Other courts indicate that such an assessment requires the knowledge of civil procedures, analysis of which would unreasonably prolong criminal proceedings.

How to calculate the price of the product?

Can a retail price of the genuine items be a basis for calculation of damages?

While the retail value of the original goods is often the main basis for calculation of damages, the following factors must be taken into consideration:

- the difference between the price of the original and counterfeit goods;
- profits made by the perpetrator;
- whether the goods were placed for sale;
- assessment of a potential situation on how much the rights holders would have earned if the crime of counterfeiting did not occur.

Which costs should be excluded?

Generally, VAT and other associated costs should be excluded

In most jurisdictions, VAT is excluded from the calculation of damages, and only the price of goods sold to retailers, after any discounts, is considered. Additionally, courts may exclude other costs such as transportation, storage, licensing fees and other associated expenses that the rights holders do not incur when counterfeit goods are sold.

Reasonable royalty

One prevalent method adopted by various Member States for assessing damages is based on a reasonable royalty. This approach estimates the amount of royalties that would have been due if the infringer had sought proper authorisation, such as a license, from the rights holder. Reasonable royalty damages aim to provide fair compensation that reflects the value of the infringed IP, ensuring that rights holders receive a monetary equivalent of what they would have earned through lawful licensing agreements.

The Swedish Copyright Act specifies that compensation is payable only if and to the extent that it is reasonable⁽⁶³⁾. In a case where the perpetrator was selling copies of designer furniture to customers in Sweden, the court indicated that reasonable remuneration should be based on the royalty or license fee that would have been paid if a license had been granted⁽⁶⁴⁾. This fee should be determined according to current tariffs, collective agreements or industry standards. As conditions vary between industries and products, there is no universally accepted level or basis for calculating such a hypothetical royalty or license fee. Ultimately, the amount of compensation depends on the evidence presented in each individual case.

A starting point in assessing hypothetical licensing fees is the information provided by the injured party. This calculation should be based on usual industry license fee levels and must be precise. Only when the product is sold in a market where no licensing exists can the court estimate reasonable compensation based on other factors, such as the profit made by the perpetrator or the profit the rights holder would have made from selling the corresponding number of original products. However, even in such

cases, the court should aim for a level of remuneration corresponding to a potential royalty or licensing fee to avoid significant overcompensation. The court also noted that, unlike in the calculation of lost profit, the calculation of potential licensing fees is irrelevant to whether the victim / injured party would have otherwise sold the corresponding number of original goods.

In this case, the injured parties indicated that due to high production costs, the licensing fee corresponds to 32 % of the consumer price, including VAT. The court noted that this corresponds to 50 % of the retail price, which seemed excessively high for any licensee. Nevertheless, the court considered the nature of the products and the production costs incurred by the companies when determining reasonable compensation, along with the profits made by the perpetrator. Taking all these elements into account, the court concluded that an

Should the criteria of lost profit or reasonable royalty be applicable in criminal counterfeiting cases?

While calculating damages based on lost profits is the most common approach in many jurisdictions, the Swedish example demonstrates that some courts opt to calculate damages based on reasonable royalties. This method addresses questions such as whether the retail price should be considered or whether the injured party would have actually sold the same quantity of goods. By focusing on what the injured party would have earned through licensing, this approach provides an alternative way to determine fair compensation.

⁽⁶³⁾ Government Bill 2008/09:67 p. 233, <https://lagen.nu/prop/2008/09:67#sid233>.

⁽⁶⁴⁾ Patent and Market Court of Appeal, Case No. B9635-16,

25 January
<https://lagen.nu/dom/pmod/2018:7>.

2018,

estimated license fee of 15 % of the retail price plus VAT would reasonably reflect the loss of the rights holders. Based on this estimated licensing fee, the court calculated the damages to be compensated to the rights holders.

After establishing a baseline, the court analysed the quantity of counterfeit goods sold over the relevant period. Since sales data was incomplete for the entire duration of the illegal activity, the court divided the timeframe into four distinct periods, each reflecting varying levels of known sales. For each period, the court assigned a ratio based on the confirmed sales figures. Using these ratios, along with an estimated licensing fee, the court calculated the damages, ultimately awarding nearly SEK 26 million (approximately EUR 2.2 million) to the rights holders.

This decision was later revised and amended by the appellate court. The appellate court confirmed the methodology used by the first instance court and agreed that the licensing fee should be the primary basis for calculating reasonable compensation. However, the appellate court found that a 15 % licensing fee was unreasonably high and instead set the licensing fee at 2 % of the retail price, excluding VAT. This reduced the awarded damages to around SEK 1.5 million (approximately EUR 135 000).

This case demonstrates that in some jurisdictions, damages are calculated based on reasonable royalties rather than lost profits. This approach provides an alternative framework for assessing damages, ensuring that compensation reflects the royalties that would have been due had the infringer sought proper authorisation from the rights holder.

In certain cases, courts may apply multiple methods for calculating damages, such as lost profits and reasonable royalties. The choice of method often depends on the type of injured party. For instance, rights management organisations typically derive their income from licensing fees and royalties, so courts may calculate their losses based on these factors.

In such cases, the courts rely heavily on the evidence submitted by the parties to determine the appropriate level of compensation. However, as illustrated by the Swedish case, this evidence must be carefully evaluated to avoid overcompensation. Courts must balance the need to fairly compensate rights holders with the risk of awarding damages that exceed the actual economic harm caused by the infringement.

In other cases, courts select the method of calculating damages based on the nature of the injured party claiming the damages. For instance, in a case involving illegal downloading of copyright-protected works, a French appellate court used the lost profit method to calculate damages for the rights holders, while employing the reasonable royalty method for associations managing collective copyrights ⁽⁶⁵⁾.

In this case, the court, similar to the Swedish approach, relied on the calculations provided by the injured parties. The court carefully evaluated the submissions from three collective management associations. Two of these associations requested compensation of EUR 0.072 per downloaded cinematographic work and EUR 0.706 per downloaded music album. The court found these calculations justified, as they were

⁽⁶⁵⁾ Paris Court of Appeal, 22 January 2019, <https://www.legalis.net/jurisprudences/cour-dappel->

[de-paris-pole-5-ch-14-arret-du-22-janvier-2019](https://www.legalis.net/jurisprudences/cour-dappel-de-paris-pole-5-ch-14-arret-du-22-janvier-2019).

based on an analysis of distribution contracts with film producers, and thus granted the requested damages.

However, the third association requested a compensation of EUR 2 per download, merely citing previous court decisions as justification. Although prior rulings can be considered as part of the assessment, they cannot replace an objective analysis of the lost profit. The association failed to provide any substantial basis for its calculation, such as distribution contract analysis or economic studies demonstrating the loss of revenue. Despite this, the court acknowledged the association's legitimate right to seek damages. Consequently, the court set the loss of profit at EUR 0.20 per download.

This case underscores the crucial role of courts in meticulously evaluating the evidence and methodologies presented by injured parties. It highlights the judiciary's duty to ensure that damage calculations are based on objective and substantiated analyses, rather than relying solely on precedent or unsubstantiated claims. Additionally, it demonstrates that courts generally acknowledge the right of injured parties to claim damages in criminal proceedings. Even when injured parties fail to provide sufficient evidence to justify their claims, courts actively assess what constitutes reasonable royalties within the specific case.

In this process, courts often estimate the amount of royalties based on what would be considered fair compensation, balancing the need to avoid overcompensation while ensuring that rights holders are adequately compensated for their losses. This active judicial involvement ensures that damage awards are both equitable and justifiable in the economic realities of the industry involved.

Non-pecuniary (moral) damages

Most of the time, damages are evaluated by monetary compensation, which evaluates very specific loss of profit or reputation. However, recently some courts have started to also award compensation for non-pecuniary or moral damages in IP infringement cases. Legislation in some countries specifically indicates that civil claims in criminal proceedings can be filed in relation to both pecuniary and non-pecuniary damages. Examples of such legislation are the Criminal Procedure Codes of Czechia (Article 43), Greece (Article 63), Latvia (Article 351), Lithuania (Article 109) and Romania (Article 19), the Criminal Code of Italy (Article 185) and the Intellectual Property Code of France (Article 331-1-3) ⁽⁶⁶⁾.

This is also in line with CJEU practice, which recognised that both economic and moral prejudice to the rights holders must be considered by the national courts ⁽⁶⁷⁾. Additionally, the European Commission recommendation on measures to combat counterfeiting and improve enforcement of intellectual property rights notes that damages are often not appropriate to remedy the actual prejudice suffered by the rights holder ⁽⁶⁸⁾. As stated by the CJEU in Case C-99/15, moral prejudice, such as damage to the reputation of the author of a work, constitutes, provided that it is proven, a component of the prejudice actually suffered by the rights holder ⁽⁶⁹⁾. For this reason, the Commission encourages the Member States to ensure that the rights holders can receive damages appropriate to

compensate for the actual prejudice cause, using a method of calculating damages that addresses all aspects of the suffered prejudice, including (a) damages covering moral damage, (b) damages covering costs that are linked to researching and identifying possible acts of infringement, and (c) damages covering payment of interest of sums due.

Criminal courts, with some exceptions, still tend to concentrate on pecuniary damages because the determination of moral damages is often very complex and difficult. However, recently, there is a shift in national court practices. In a recent criminal case on

In many IP cases, pecuniary damages alone do not fully address the harm suffered by rights holders

Brands frequently experience damage to their reputation, which they have built over long periods and through significant investment. IP right infringement can erode customer trust over time, diverting clients away from legitimate products. Additionally, brands often incur substantial costs in investigating rights violations and restoring their damaged reputations. This non-pecuniary harm can be just as detrimental as the financial loss, requiring courts to consider a broader range of factors when determining adequate compensation.

⁽⁶⁶⁾ The national legislation on intellectual property crimes can be accessed at the IPC Project's country fiches: <https://www.eurojust.europa.eu/country-fiches-list>.

⁽⁶⁷⁾ Judgment of the Court of Justice of 17 March 2016, *Christian Liffers v Producciones Mandarina SL and Mediaset España Comunicación SA, anciennement Gestevisión Telecinco SA*, Case C-99/15, ECLI:EU:C:2016:173, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:62015CJ0099>.

⁽⁶⁸⁾ Commission recommendation of 19.3.2024 on measures to combat counterfeiting and enhance the enforcement of intellectual property rights,

C(2024) 1739 final, paragraph 26, <https://single-market-economy.ec.europa.eu/publications/commission-recommendation-measures-combat-counterfeiting-and-enhance-enforcement-intellectual-en>.

⁽⁶⁹⁾ Judgment of the Court of Justice of 17 March 2016, *Christian Liffers v Producciones Mandarina SL and Mediaset España Comunicación SA, anciennement Gestevisión Telecinco SA*, Case C-99/15, ECLI:EU:C:2016:173, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:62015CJ0099>.

trademark violations, the Spanish Supreme Court recognised that the injured parties have a right to compensation for moral damage. The court indicated that the very exhibition for sale of the products that infringe trademark rights by imitation or confusion of their distinctive signs results in implicit moral damage that does not need further proof⁽⁷⁰⁾. The court further indicated that it is difficult, if not impossible, to convert moral damages into direct financial damage and calculate it in terms of lost profit. Nevertheless, despite the difficulty of calculation, moral damages cannot be excluded from the assessment. This decision is in line with EU legislation and CJEU practice⁽⁷¹⁾.

French courts took a similar approach in a copyright violation case, where the French appellate court indicated that national legislation clearly indicates that moral damages need to be considered when assessing damages suffered by the injured parties⁽⁷²⁾. The court went on to indicate that it is not possible to assess the moral damages caused by illegal streaming; however, the mere fact that the copyright violation has been proved is sufficient to prove that the rights holders suffered moral damages.

The mere fact of the violation of IP rights is sufficient to conclude that the rights holders suffered moral damages.

Non-pecuniary damages in IP violation cases could be very broad. The above-mentioned decision of the Spanish Supreme Court

indicated that IP violations cause significant reputational damage to the rights holder, affecting the reputation of protected trademarks, whose distinctive signs are used to sell products at a much lower price than those protected by the original signs. It also compromised, even indirectly or diffusely, the intangible elements of exclusivity and commitment to quality that trademarks intend to transmit to consumers as a whole. The Spanish court relied on CJEU practice, where the infringement of trademark rights, in addition to seeking an unfair advantage of the distinctive character or reputation of the trademark with economic value, also compromises the element of trust that are intended to transmit to consumers. These elements include the promise or guarantee of a certain quality, a specific image related to a certain lifestyle or exclusivity of its use⁽⁷³⁾.

To determine the moral damages in this case, the Spanish court estimated them to be 25 % of the potential profit the injured parties would have earned if the criminal offense had not occurred. The Spanish Supreme Court confirmed this calculation, stating that it represents a reasonable assessment of various factors, ensuring that the damage to the company's reputation is compensated without resulting in excessive over-compensation.

French court practice emphasises that the amount of moral damages should be determined based on the evidence submitted by the injured parties. This amount must be precise and well-justified; judges cannot award a lump sum without sufficient proof of the alleged non-material

⁽⁷⁰⁾ Spanish Supreme Court, Case No. STS 611/2023, 13 June 2023, <https://vlex.es/vid/939916136>.

⁽⁷¹⁾ Spanish Supreme Court, Case No. STS 611/2023, 13 June 2023, <https://vlex.es/vid/939916136>.

⁽⁷²⁾ Court of Appeals of Paris, 22 January 2019, <https://www.legalis.net/jurisprudences/cour-dappel-de-paris-pole-5-ch-14-arret-du-22-janvier-2019>.

⁽⁷³⁾ Judgment of the Court of Justice of 18 June 2009, *L'Oréal SA, Lancôme parfums et beauté & Cie SNC and Laboratoire Garnier & Cie v Bellure NV, Malaika Investments Ltd and Starion International Ltd.*, Case C-487/07, ECLI:EU:C:2009:378, [https://eur-](https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:62009CJ0378)

[lex.europa.eu/legal-](https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:62007CJ0487)

[content/en/TXT/?uri=CELEX:62007CJ0487](https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:62007CJ0487); Judgment of the Court of Justice of 23 March 2010, *Google France SARL and Google Inc. v Louis Vuitton Malletier SA* (C-236/08), *Google France SARL v Viaticum SA and Luteciel SARL* (C-237/08) and *Google France SARL v Centre national de recherche en relations humaines (CNRRH) SARL and Others* (C-238/08), Case C-236-08, ECLI:EU:C:2010:159, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:62008CJ0236>.

In France, civil law principles on damage calculation are applied equally in criminal cases.

A factsheet issued by the Paris Court of Appeals outlines that moral damages encompass two key aspects.

01

External damages. These affect the company's image or reputation, such as through denigration, and its honour when it embodies values (professional, spiritual, philosophical, or political) that constitute its identity.

02

Internal damages. These result in a general deterioration in morale within the company and a loss of confidence in its future, often evidenced by increased departures or a lack of interest from potential recruits.



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loss. Injured parties are required to provide comprehensive documentation to support their claims.

By requiring detailed and substantiated evidence, the French courts ensure that compensation for moral damages is fair, accurate and reflective of the actual harm suffered by the injured parties. This meticulous approach helps maintain the integrity of the compensation process and ensures that damages awarded are both

justified and proportional to the harm incurred.

Damage to a trademark's reputation as moral damage has also been recognised by other courts. In case No II AKA 382/10, the Court of Appeals in Katowice stated that the effects on the market caused by trademark infringement are characterised as damage consisting of multiple components, such as damage to the rights holder's reputation, customer confusion and the creation of a state of uncertainty in the market. As a result, the brand's reputation and image suffer, as does the recognition of the trademark and the demand for goods bearing that name ⁽⁷⁴⁾.

This practice shows that non-pecuniary damage in IP can be understood in a very broad manner. In general terms, it mainly relates to the reputational damage of the rights holder and their brand. The reputational damage includes the following elements:

- damage to the distinctive character of the brand and the quality it offers with the specific name and brand;
- compromise to the guarantee of high quality and exclusivity related to a certain name;
- customer confusion and compromises to elements of trust that a certain name brings with the product;
- creation of uncertainty in the market.

The evolving recognition of moral damages in IP infringement cases signifies a broader understanding of the harm caused by such violations. While economic damages are relatively straightforward to calculate, moral damages present a more complex challenge, often involving intangible aspects like reputational harm and consumer trust. Despite these difficulties, the trend towards

⁽⁷⁴⁾ Court of Appeals of Katowice, Case No. II AKA 382/10, 5 January 2011, [https://orzeczenia.katowice.sa.gov.pl/content/\\$N/15](https://orzeczenia.katowice.sa.gov.pl/content/$N/15)

[1500000001006 II AKA 000382 2010 Uz 2011-01-05 001.](https://orzeczenia.katowice.sa.gov.pl/content/$N/15)

acknowledging and compensating for moral damages aligns with a more comprehensive approach to justice, ensuring that the rights holders receive full restitution for all forms of prejudice suffered. While some courts require a precise calculation of moral damages based on the documents submitted by the injured parties, such calculations often necessitate in-depth knowledge of economic processes. Consequently, courts frequently opt to award moral damages as a lump sum, typically contingent on a specific request from the injured party.

What documentation can injured parties submit in a criminal case to prove that they suffered moral damages?

01

Market and brand-awareness studies

02

Dated press cuttings to establish the brand's or model's reputation and demonstrate investments made

03

Opinion surveys of the claimant's customers

04

A certified promotional and advertising budget, including marketing and promotional costs to remedy the damage

05

Market analyses and changes in market share

06

Internal additional costs to address the loss of employee confidence

07

Licenses granted

08

Other similar documents

Lump sum or predetermined damages

The standard practice is that damages in criminal IP cases should be awarded based on a detailed calculation of the loss suffered by the injured parties due to the criminal acts. This approach ensures that rights holders are reasonably compensated without leading to unreasonable overcompensation. However, in some instances, the calculation of damages cannot be determined solely based on the documents and evidence provided by the injured parties. In such cases, criminal courts may choose to refer the civil claim to a civil court, as the calculation of damages might unreasonably burden the court and prolong the criminal proceedings. Alternatively, in some jurisdictions, courts may resort to awarding a lump sum as compensation to the injured parties.

The option to award a lump sum as an alternative method for compensating damages is also recognised in Article 13 of the enforcement directive. This article indicates that a lump sum can be awarded based on hypothetical royalties if the infringer had legally used the IP. While the enforcement directive is not applicable in criminal proceedings, EU courts tend to rely on the principles set in the directive for the calculation of damages in criminal cases. In this regard, some courts recognise the option to award a lump sum when a precise calculation of damages is not possible ⁽⁷⁵⁾.

The lump sum is widely used by Polish courts to compensate for damages. This practice follows provisions in Article 46 of the Polish Criminal Code, which indicates that if the calculation of damages is significantly difficult, the court can award compensation to the injured party of up to

A lump sum is usually awarded as an alternative means if the calculation of damages is very difficult or impossible based on the documents in the case file.

PLN 200 000 (approximately EUR 46 000) ⁽⁷⁶⁾.

The Polish courts generally indicate that the precise calculation of damages in criminal IP cases is a very complex task that often cannot be determined accurately. Despite this complexity, courts recognise that injured parties are still entitled to compensation for the harmful effects of the criminal offense.

In a case concerning the sale of low-quality counterfeit goods, the Polish court indicated that the nature of the clients who purchased low-quality counterfeit goods showed they most likely would not purchase original luxury goods ⁽⁷⁷⁾. Thus, it is not possible to conclude that luxury brands lost clients due to this criminal offense.

Despite this, the court indicated that the brand still suffered damage to its reputation and often had to invest more in detecting counterfeit goods or advertising to reverse the damage to their reputation. As it is nearly impossible to calculate the exact amount of this damage, the court relied heavily on the analysis of the effects of the perpetrator's act on the image of the injured party, taking into account the low income generated by the perpetrator in this case. Considering all these circumstances, the court concluded

⁽⁷⁵⁾ See, for example, Nessebar District Court, Case No 246/2023, 26 September 2023, <https://delib.bg/Acts/64c61f48-8773-44a5-a0e3-647a605b7a00>.

⁽⁷⁶⁾ Article 46 of the Polish Criminal Code, <https://sip.lex.pl/akty-prawne/dzu-dziennik->

<ustaw/kodeks-karny-16798683/art-46>.
⁽⁷⁷⁾ District Court in Jelenia Góra, Case No 96/15, 31 March 2015, [https://orzeczenia.jelenia-gora.so.gov.pl/content/\\$N/155005000003006_VI_Ka_000096_2015_Uz_2015-03-31_002](https://orzeczenia.jelenia-gora.so.gov.pl/content/$N/155005000003006_VI_Ka_000096_2015_Uz_2015-03-31_002).

that damages of PLN 2 000 (approximately EUR 465) would be adequate.

Another example is Article L331-1-3 of the French Intellectual Property Code, which indicates that a court may, as an alternative and at the request of the injured party, award a lump sum for damages ⁽⁷⁸⁾. The French court applied this provision in a copyright violation case involving the unauthorised availability of thousands of copyright-protected works for download ⁽⁷⁹⁾. The court considered that it was impossible to determine the precise number of protected works made available online, which would not allow for an accurate calculation of the loss of profit. For this reason, the court decided to grant a lump sum of EUR 20 000 as a means of compensation. In deciding on the amount of compensation, the court took into consideration the total number of subscribers (4 715), the website's profit (EUR 98 616) and the fact that users were downloading both musical and audiovisual works.

The Court of Cassation affirmed the conclusions of the lower court in this case, accepting the awarding of a lump sum to the injured parties ⁽⁸⁰⁾. This shows that even if it is impossible to apply a precise formula for calculation of damages, the court can still use the elements that have been confirmed in the case and determine the approximate damage suffered by the rights holders.

Despite this, awarding a lump sum cannot be used by the courts as an easy way out of calculating an often complex compensation scheme. An example of this situation is the decision of the French Court of Cassation, which annulled the decision of a lower court and sent it back to the appellate court, indicating that awarding a lump sum is

What are the conditions to award a lump sum?

01

The possibility to award a lump sum is generally set in national legislation.

As an alternative, this possibility could also be set in the previous court practice.

02

The starting point is the assessment of the evidence submitted by the injured parties. The failure of the injured parties to submit any evidence cannot be a reason to award the lump sum.

03

The court can only award a predetermined sum if the evidence submitted by the injured parties is insufficient to determine precise damages based on other methods, such as loss of profit, reasonable royalties or moral damages.

04

When deciding the amount of the lump sum, the court should take all available information into consideration, such as the type of customers who bought or used illegal services, the number of customers, the price of the goods or services and other available factors.

⁽⁷⁸⁾ Article L331-1-3 of the Intellectual Property Code, https://www.legifrance.gouv.fr/codes/article_lc/LEGIARTI000028716676.

⁽⁷⁹⁾ Court of Appeal of Colmar, 31 July 2017, <https://www.legalis.net/jurisprudences/cour-dappel-de-colmar-arret-du-31-mars-2017>.

⁽⁸⁰⁾ Court of Cassation, Case No 17-83.539, 20 March 2018,

https://www.courdecassation.fr/decision/5fca928d3c023286830265cc?search_api_fulltext=SACEM+penal&sort=&items_per_page=&judilibre_chambre=&judilibre_re_type=&judilibre_matiere=&judilibre_publication=&judilibre_solution=&op=&date_du=&date_au=&previousdecisionpage=0&previousdecisionindex=2&nextdecisionpage=0&nextdecisionindex=4.

considered only as an alternative method and can be applied only when other methods cannot lead to a reasonable conclusion⁽⁸¹⁾. In this case, which concerned the production and sale of counterfeit pharmaceutical products, the appellate court awarded various lump sums to injured parties, ranging from EUR 45 000 to EUR 10 000. The appellate court indicated that these sums were based on the damage to the image of the trademark and the reduced sales of the original goods due to the depreciation of these trademarks associated by the public with the quality of the products sold in pharmacies and the reliability of the advice provided by pharmacists. The Court of Cassation found that the appellate court failed to evaluate the loss of earnings of the injured parties, who did not provide evidence of the products they sell or how the sale of the counterfeit goods affected their profits. Consequently, the Court of Cassation concluded that the appellate court failed to consider the primary elements of negative economic consequences, including the loss of profit suffered by the injured party, the profits made by the infringer and the moral damage. The court could only have awarded the lump sum when these elements were evaluated.

Thus, a lump sum can be awarded only as an alternative when other methods do not allow the court to determine the damages, and such a court decision must be well-justified. Even if the court chooses to award a lump sum, it must still largely be based on the submissions of the parties and fall within the limits of what the injured parties are requesting to avoid any potential unjust enrichment. Failure of the parties to provide any evidence of their damage cannot be a reason to award the compensation in the form of the lump sum.

In conclusion, the calculation of damages in criminal IP cases varies significantly across jurisdictions. While detailed calculations

based on evidence are preferred to ensure precise and fair compensation, practical challenges often lead courts to adopt alternative methods. Lump sum awards provide a viable solution when precise calculations are not feasible, ensuring that rights holders receive compensation for their losses. This approach is supported by both national legislation and principles derived from the enforcement directive, highlighting the flexibility of courts in addressing the complexities of IP infringement cases. Despite this flexibility, courts still need to carefully assess all the circumstances in each case and ensure that the awarded lump sum is well-justified and does not lead to unfair enrichment.

⁽⁸¹⁾ Court of Cassation, Case No 17-87.485, 26 June 2019, <https://www.lexbase.fr/article-juridique/52260634-brevets-contrefaçon-de-marque-fixation-des->

[dommages-interets-alloues-a-la-partie-civile-par-le-juge-](https://www.lexbase.fr/article-juridique/52260634-brevets-contrefaçon-de-marque-fixation-des-dommages-interets-alloues-a-la-partie-civile-par-le-juge-)

5

Conclusions

The calculation of damages in criminal IP cases is marked by significant variability and complexity across jurisdictions. This report has explored how different courts approach the challenge of quantifying damages, whether through detailed economic analysis, the awarding of lump sums or the assessment of reasonable royalties. It demonstrates that the absence of uniform and clear guidance on how to address the damages leads to very diverse approaches by each country and each court.

A prevalent method involves calculating damages based on the potential lost profits of the rights holders, which ensures compensation is closely tied to the actual economic impact of the infringement. This approach is often preferred for its precision, but requires substantial evidence and thorough economic analysis. Courts in France and Sweden have demonstrated a very precise formula on how damages are calculated in copyright infringement cases, both in illegal downloading and streaming cases. As the cases of illegal IPTV services are currently increasing, this formula might serve as an important basis for many courts in how to determine the loss for decoding and illegally streaming subscriber-based services.

The calculation of damages is much more complex in counterfeiting cases. Courts often struggle with elements such as whether the price of the original goods could be used as a basis or how to determine damages if the counterfeit goods have not reached the market. There is no uniform formula on how to calculate lost profit in counterfeit cases; however, most of the examples illustrated in this report show that the courts often look at other factors – particularly how much the perpetrator earned from the illegal sale of the goods. This can help the courts to

determine whether the customer buying illegal luxury goods would have actually bought original goods. In that sense, US practice uses the formula that the price of the original goods can be used as a baseline for the compensation of damage only in cases when the retail price of the counterfeit items is not less than 75 % of the original goods' price. This shows that in counterfeit cases, it is important to assess several elements and look into the case as a whole to determine reasonable compensation that would not lead to unjust overcompensation.

Another method to calculate damages is the estimation of potential royalties or licensing fees that would have been due if the perpetrator had an appropriate licensing agreement. The Swedish courts indicated that this method should prevail over the method of lost profit as it offers more precise and reasonable compensation. To determine the hypothetical royalties, the court looked into royalties generally applied in that particular industry and estimated the percentage from the potential profits of the injured parties. This shows that determination of potential royalties can still be a very complex task.

Courts often recognise that it is almost impossible to calculate precise damages in criminal IP right cases. However, this cannot lead to the decision not to award any compensation. Polish courts generally recognise that even if it is difficult to determine the amount of damage, the fact that the damage was done by the crime of counterfeiting is unquestionable. These acts cause damage to the brand and its reputation, often requiring the brands to invest considerably to detect counterfeits and to promote their image in order to reverse the negative effects of the crime. This moral damage often cannot be

calculated based on the lost profit, thus the courts often resort to awarding a lump sum as a compensation.

Awarding a lump sum as an alternative is recognised in several jurisdictions. This method, though less precise, provides a pragmatic solution when the complexity of the case or lack of detailed evidence makes exact calculations unfeasible. However, this method still needs to be based on the evidence submitted by the parties and have justified reasoning. The Court of Cassation in France highlighted that awarding a lump sum has to be a last resort measure and cannot be used in cases where the injured parties fail to justify their request for compensation.

The report also highlighted the influence of EU directives, such as the enforcement directive, which, while primarily applicable to civil cases, offer principles that can guide criminal proceedings. The enforcement directive supports the use of hypothetical royalties as a basis for lump sum awards, reinforcing the courts' flexibility in addressing the nuances of IP infringement cases.

Ultimately, the diversity in judicial approaches underscores the importance of a tailored, case-by-case evaluation to ensure fair and just compensation for rights holders. Courts must carefully balance the need for reasonable compensation with the risk of unjust enrichment, drawing on both legal frameworks and economic realities. This nuanced approach helps maintain the integrity of IP rights while fostering a fair and equitable legal environment.

Annex

Legal provisions on civil claims in criminal proceedings in EU Member States

Country	Civil claim in criminal case	Legal provisions	Comment
Austria	Yes	Article 67 of the Criminal Procedure Code	The IP crime is subject to private prosecution; such a criminal offence is not covered by public prosecution unless the IP crime charges are part of other criminal charges.
Belgium	Yes	Article 4 of the Criminal Procedure Code	The civil party may also choose to file the claim for damages before civil court. In this case, the civil procedure shall be suspended until the criminal trial is completed to avoid contradictions between civil and criminal procedures (Article 4 of the Criminal Procedure Code).
Bulgaria	Yes	Article 84(1) of the Criminal Procedure Code	The Criminal Court can refuse to adjudicate the civil claim. This refusal is not subject to appeal. In this case, the injured party can refer the claim to the civil court (Article 88(1) of the Criminal Procedure Code).
Croatia	Yes	Article 153 of the Criminal Procedure Code	A civil claim can be brought before criminal court only if it does not significantly delay criminal proceedings. The court may dismiss the civil claim if there is not enough information to decide on the damages, if the defendant is acquitted or charges are dismissed (Article 158 of the Criminal Procedure Code).
Cyprus	Yes		While the criminal court has the jurisdiction to award a limited amount of compensation to the victim of a crime, in practice this jurisdiction is rarely used and has not been seen at all in recent decades.
Czechia	Yes	Article 43 of the Criminal Procedure Code	If there is no basis to award the damages based on the gathered evidence, and it is necessary to gather additional evidence to decide the civil claim which could prolong the criminal proceedings, the court can refer the case to a civil court. This decision cannot be appealed (Article 229 of the Criminal Procedure Code).
Denmark	Yes	Chapter 88 of the Executive Order on the Administration of Justice Act	The court may at any time during the criminal proceedings refuse to pursue a civil claim if it finds that considering it during the criminal proceedings cannot take place without significant inconvenience.
Estonia	Yes	Section 225 of the Criminal Procedure Code	The civil action can be dismissed if the criminal case is terminated or a conviction is made. Civil action can be dismissed even if the case ended up with a conviction if it is not possible to hear it without a victim who did not appear before the court or if the civil action does not have grounds.
Finland	Yes	Chapter 3 of the Code of Criminal Procedure	The court rejects the claim for compensation if insufficient evidence is submitted to support it.

Country	Civil claim in criminal case	Legal provisions	Comment
France	Yes	Article 2 of the Criminal Procedure Code	The injured party must request the court to be recognised as a civil party to the criminal proceedings. The court issues a ruling on the request, which can be denied if the request for compensation is not related to the criminal offence (Section I of the Criminal Procedure Code).
Germany	Yes	Section 403 of the Criminal Procedure Code	This procedure is called adhesion procedure and requires a very precise calculation of the financial loss.
Greece	Yes	Article 63, 82 and 83 of the Criminal Procedure Code	The court can dismiss the claim if the criminal proceedings are terminated, or if the claim is unfounded, does not have legal basis or is filed unlawfully.
Hungary	Yes	Article 556 of the Criminal Procedure Code Right of the victim to submit a civil claim – Article 51(1)(h) of the Criminal Procedure Code	A civil claim must contain an indication of defendant against whom the victim is bringing the civil claim, specific request – in particular the amount or quantity of the claim, right on which the civil claim is based, supporting facts and the method and place of execution in the event that the court rules on the substance of the civil claim (Article 556 of the Criminal Procedure Code).
Ireland	Yes	Section 6 of the Criminal Justice Act Order 33 – Compensation Orders	The court in a criminal case may issue a compensation order to pay damages to the injured party resulting from the criminal offence.
Italy	Yes	Article 185 of the Criminal Code Articles 74–89 of the Code of Criminal Procedure	The court might either decide on a civil claim or to merely make a finding that there is a right to damages and refer the parties to the civil courts in order to determine the amount owed. In case the injured party chooses to bring the claim before the civil court, this claim might be transferred to the criminal proceedings at any time and civil proceedings suspended (Article 75 of the Code of Criminal Procedure).
Latvia	Yes	Article 351 of the Criminal Procedure Code	If the court issues a judgement of acquittal, the claim of damages is not examined. In this case, the claim can be submitted before a civil court.
Lithuania	Yes	Article 109 of the Criminal Procedure Code	A civil claim is not examined if the accused is acquitted or if the civil claimant or their representative does not attend the court hearing. In such cases, the civil claimant is entitled to bring a claim in civil proceedings. In exceptional cases, where it is not possible to precisely quantify the amount to be awarded because additional material is needed, the court may recognise the civil claimant's right to have their claim satisfied when handing down a conviction and transfer consideration of the amount of the claim to civil proceedings.
Luxembourg	Yes	Articles 56–62 of the Code of Criminal Procedure	The victim has to submit the claim before the investigating judge to be considered as an injured party. This complaint will be rejected if there is no sufficient linkage between the alleged criminal offence and the damage incurred.
Malta	No	Article 3(3) of the Criminal Code	Every criminal offence gives rise to a criminal and civil action. A civil action is tried before the civil courts, where the compensation for damage caused by the criminal offence is thereby demanded.

Country	Civil claim in criminal case	Legal provisions	Comment
Netherlands	Yes	Article 51f of the Criminal Procedure Code	Dutch courts generally tend to refer civil claims in IP cases to civil courts, as such claims would place a disproportionate burden on criminal cases.
Poland	Yes	Article 46 of the Criminal Code	In case of conviction and at the request of the victim, the court may decide on compensation of damages. In this case, the court applies civil law principles. The court can also award a lump sum in cases the calculation of damages is difficult.
Portugal	Yes	Articles 71 and 72 of the Criminal Code	Portugal uses a principle of adhesion, which means that if the injured party chooses to bring a civil claim based on the criminal offence, the claim must be brought up in the criminal proceeding and can be brought separately before civil court only in cases prescribed by the Criminal Code.
Romania	Yes	Articles 19–29 of the Criminal Procedure Code	In its claim, the civil party needs to indicate the nature and extent of the claim as well as the reasons and evidence on which the claim is based (Article 20 of the Criminal Procedure Code).
Slovakia	Yes	Article 46 of the Criminal Procedure Code	The prosecutor has the right to request that injured parties be excluded from criminal proceedings if the following conditions are met: (a) there is a large number of injured parties (more than 100); and (b) the participation of injured parties in criminal proceedings could seriously impair the purpose and rapid progression of the criminal prosecution.
Slovenia	Yes	Articles 100–111 of the Slovenian Criminal Procedure Code	The court assesses the civil claim only if the offender is found guilty. In other cases, the civil claim is referred before a civil court.
Spain	Yes	Article 108 of the Law of Criminal Procedure	Civil action must be brought together with the criminal action by the prosecutor, regardless of whether there is a victim in the proceedings, unless the injured party explicitly waives their right for compensation or reparation.
Sweden	Yes	Article 54 of the Copyright Act Section 4 of the Trademark Act	The court can separate the civil claim from criminal proceedings. This may happen when the claim is complex or not prepared properly and might thus delay criminal proceedings.



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