

Russia Practice

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New judicial practice on compensation for infringement of intellectual property rights

In the event an exclusive right to an intellectual property is infringed, the right holder is entitled to demand payment of compensation, as established in the Civil Code. At the end of 2016 the Constitutional Court allowed the courts to reduce the amount of compensation in certain cases. Already in 2017 the Supreme Court extended the interpretation of the rules on reduction of compensation. What are the implications of the most recent practice of the RF Supreme Court for holders of rights?

1. Compensation and its different forms

When it comes to reimbursing damages, it is almost always a case of compensating the lost profit of a right holder, which is fairly difficult to prove. This concerns in particular instances when the right holder has not concluded any licensing agreements which could serve to compare royalty payments. This is why Russian law provides for the possibility to claim compensation.

Russian legislation stipulates two different ways of calculating compensation: the fixed amount of compensation or the arithmetical compensation.

In case of a fixed amount of compensation, the right holder is entitled to demand that the infringer makes a payment of between RUB 10,000 and 5 million, depending on the nature of the infringement. In the end, it is the court that determines the amount of compensation.

If the right holder opts for arithmetical compensation, there are no restrictions on the maximum amount. According to the general rules, the compensation is calculated as follows:

- either as the value of the counterfeit goods multiplied by a coefficient of 2 (this method is not applied to subjects of patent law), or
- as the value of the right of use of a corresponding intellectual property object, also multiplied by a coefficient of 2.

In the latter instance, a royalty payment serves as the basis for calculation.

2. Application of compensation in court practice

In 2015 and 2016, the Intellectual Property Court as court of appeal also confirmed the decisions of lower courts on the award of compensation in comparatively large amounts in a number of cases. In Case No. A83-49/2016 it awarded RUB 6,500,000 in compensation

(approx. EUR 100,000); in Case No. A60-62114/2015 it recovered RUB 10,200,000 in compensation (approximately EUR 150,000); and in Case No. A60-3116/2015 RUB 8,760,000 in compensation (approx. EUR 130,000).

3. Position of the RF Constitutional Court

A case heard by the Constitutional Court at the end of 2016 concerned the claims of right holders against individual entrepreneurs. The court of first instance had deemed the compensation applied for and calculated on the basis of the Civil Code inadequate, and had accordingly submitted a respective request to the Constitutional Court. In its Regulation No. 28P dated 13 December 2016, the latter found the provision of the Civil Code to be unconstitutional insofar as it does not provide for a possibility to grant a compensation below the minimum level, if the amount of such compensation significantly exceeds the losses incurred by the holder of rights. In this context, the Constitutional Court has defined certain conditions for the determination of the compensation below the set level.

Thus, a court may at its own discretion reduce the amount of compensation if in the case at hand an individual entrepreneur commits such an infringement for the first time. To trigger a compensation, the infringement has to be committed in respect of several items of intellectual property (for example, with regard to several trademarks or a trademark and a copyrighted item). At the same time, the use of intellectual property of other persons should not constitute a significant part of the activity being performed by such individual entrepreneur. Finally, the damages actually caused by the individual entrepreneur must fall significantly short of the amount of compensation stipulated by law, while the infringement must not be a gross infringement.¹

The Constitutional Court has requested the legislator to include corresponding relevant amendments in civil legislation. At present, however, such amendments have not yet been made.

4. New position of the Supreme Court

The conclusions of the RF Constitutional Court were further developed by the RF Supreme Court in its Ruling No. 305-ES16-13233 dated 25 April 2017 in a matter on the protection of exclusive rights to a trademark. Overturning the decisions of the lower courts which had awarded RUB 100,000 in compensation to be paid by the defendant, the Supreme Court had assumed that the legal position determined in Judgment No. 28-P of the RF Constitutional Court dated 13 December 2016 was to be applied not only to individual entrepreneurs and individuals, but also to legal entities.

The ruling issued by the Supreme Court has multiple implications: On the one hand it has a weakening effect on the protection of right holders due to the reduced compensation.

¹ See for more details: Judgment No. 28-P of the RF Constitutional Court dated 13 December 2016.

On the other hand, the possibility to reduce the compensation is limited in scope and requires a number of requirements be fulfilled, in particular, the defendant has to file an application which must in addition include submission of evidence to the court that would substantiate the necessity of such a reduction. The court is, thus, not able to reduce the amount of compensation demanded by the claimant on its own initiative.



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