

# Punitive damages in intellectual property law – a private international law outlook

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## Chapter I. Introduction

Article 13 of the Enforcement Directive 2004/48, headed “Damages”, provides in paragraph 1: “Member States shall ensure that the competent judicial authorities, on application of the injured party, order the infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity, to pay the right holder damages appropriate to the actual prejudice suffered by him/her as a result of the infringement.

When the judicial authorities set the damages:

- a. they shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the right holder by the infringement;  
or
- b. as an alternative to (a), they may, in appropriate cases, set the damages as a lump sum on the basis of elements such as at least the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the intellectual property right in question.”

In *OTK v. SFP* the European Court of Justice (ECJ) had to rule on the question whether Polish law allowing the right holder to recover from the infringer of his copyright twice or three times the license fee that would have been due is compatible with Article 13 of the Enforcement Directive.<sup>1</sup> Put differently, the Court in Luxemburg was asked if a national law providing for punitive damages for copyright infringement is in accordance with Article 13 of the Enforcement Directive. This contribution first looks at the judgment (II) and its effect on the implementation of the Directive in Belgium (III). As the European Court of Justice decided that Article 13 does not preclude such national legislation, it subsequently examines whether a judgment awarding such punitive damages will be enforced in other EU Member States (IV). Lastly, this contribution investigates the situation in which the enforcement of a judgment for punitive

<sup>1</sup> ECJ 25 January 2017, C-367/15, *Stowarzyszenie “Oławska Telewizja Kablowa” v. Stowarzyszenie Filmowców Polskich* (hereinafter “ECJ *OTK v. SFP* case C-367/15”).

damages for intellectual property infringement originating from outside the EU is sought in the EU (V).

## Chapter II. The *OTK v. SFP* case

### Section 1. Facts

The dispute arose between Stowarzyszenie “Oławska Telewizja Kablowa”, established in Oława (Poland) (“OTK”), and Stowarzyszenie Filmowców Polskich (the Polish Filmmakers’ Association), established in Warsaw (Poland) (“SFP”). SFP is an organisation collectively managing copyright which is licensed in Poland and entitled to manage and protect copyright in audiovisual works. OTK is the Cable Television Association that broadcasts television programmes by means of a cable network in the Polish town of Oława.

After notice of termination was given on 30 December 1998 of a licensing agreement that set out the rules on payment between the parties to the main proceedings, OTK continued to make use of copyright works and filed an application with the Polish Copyright Commission seeking, in essence, that the fee payable for use of the copyright managed by SFP be set. The Copyright Commission set the fee at 1.6 % of the net income, exclusive of value added tax, earned by OTK from its retransmission of works by cable, not including certain charges borne by it. OTK itself calculated the amount due on that basis and paid SFP the sum of PLN 34,312.69 (roughly EUR 7,736.11) in respect of the income received for the period from 2006 to 2008.

In the meantime, SFP had already started court proceedings against OTK. It requested that OTK be prohibited from retransmitting the protected audiovisual works until a new licensing agreement was agreed upon and that OTK be ordered to pay PLN 390,337.50 (roughly EUR 88,005.17) together with statutory interest. The dispute travelled through the Polish court system and reached the Polish Supreme Court on three separate occasions. When asked to examine the case for the third time, the Supreme Court had doubts as to whether a Polish law provision, Article 79(1)(3)(b) of the Law on copyright and related rights of 4 February 1994, was compatible with Article 13 of the Enforcement Directive. Under the Polish provision it is possible, at the request of the right holder, for compensation to consist in payment of a sum of money corresponding to twice or three times the amount of the appropriate fee, without having to prove the actual loss or a causal link. The license fee that would have been due is also called the hypothetical royalty. This option exists next to the possibility of claiming compensation for the damage actually suffered, taking into account all the appropriate aspects of the particular case.

The Polish provision was declared partially unconstitutional after the Supreme Court had referred its request for a preliminary ruling to the ECJ. The Constitutional Court of Poland had ruled that the provision violates the Constitution in so far as it allows the right holder to claim, in the event of a culpable

infringement, payment of a sum corresponding to three times the amount of the appropriate fee. The ECJ, therefore, only had to decide on the constitutional part of the provision (namely the awarding of twice the fee as damages).

## Section 2. Decision of the ECJ

The European Court of Justice first of all notes that Article 3(2) of the Enforcement Directive requires that the measures, procedures and remedies necessary to ensure the enforcement of the intellectual property rights covered by the Directive are effective, proportionate and dissuasive.<sup>2</sup> The calculation of damages is included therein.<sup>3</sup>

It further rules that the Enforcement Directive lays down a minimum standard concerning the enforcement of intellectual property rights and does not prevent the EU Member States from enacting more protective measures.<sup>4</sup> International agreements such as TRIPS, the Berne Convention and the Rome Convention equally permit Contracting States to grant the holders of the rights concerned wider protection than that respectively laid down by these instruments.<sup>5</sup>

The Court, therefore, holds that Article 13(1)(b) of the Directive has to be interpreted as not precluding legislation which provides that the holder of economic rights of copyright that have been infringed may require the infringer to compensate for the loss caused by payment of a sum corresponding to twice the amount of a hypothetical royalty.<sup>6</sup>

This interpretation cannot be called into question by the fact that compensation calculated on the basis of twice the hypothetical royalty is not precisely proportional to the loss actually suffered by the injured party. That characteristic is inherent in any lump-sum compensation, such as the one in Article 13(1)(b) of the Directive.<sup>7</sup>

Furthermore, this interpretation does not come into conflict with recital 26 of the Enforcement Directive, which provides that the Directive does not have the aim of introducing an obligation to provide for punitive damages.<sup>8</sup> The fact that the Directive does not entail an obligation on the Member States to provide for punitive damages cannot be interpreted as a prohibition on introducing such a measure.<sup>9</sup>

Besides, without there being any need to rule on whether or not the introduction of punitive damages would be contrary to Article 13, the European Court of Justice finds in the case at hand that it is not evident that the Polish

<sup>2</sup> ECJ, C-367/15, *OTK v. SFP*, para. 21.

<sup>3</sup> ECJ, C-367/15, *OTK v. SFP*, para. 22.

<sup>4</sup> ECJ, C-367/15, *OTK v. SFP*, para. 23.

<sup>5</sup> ECJ, C-367/15, *OTK v. SFP*, para. 24.

<sup>6</sup> ECJ, C-367/15, *OTK v. SFP*, para. 25.

<sup>7</sup> ECJ, C-367/15, *OTK v. SFP*, para. 26.

<sup>8</sup> ECJ, C-367/15, *OTK v. SFP*, para. 27.

<sup>9</sup> ECJ, C-367/15, *OTK v. SFP*, para. 28.

provision entails an obligation to pay such damages.<sup>10</sup> It points out that mere payment of the hypothetical royalty is not capable of guaranteeing compensation in respect of all the loss actually suffered, given that payment of that royalty would not, in itself, ensure reimbursement of any costs – referred to in recital 26 – that are linked to researching and identifying possible acts of infringement, compensation for possible moral prejudice or payment of interest on the sums due. OTK had apparently also admitted that payment of twice the amount of the hypothetical royalty is equivalent in practice to compensation of an amount remaining below what the holder would be able to claim on the basis of the damage actually suffered.<sup>11</sup> The ECJ does recognise that it is possible, in exceptional cases, that payment of twice the hypothetical royalty exceeds the loss actually suffered so clearly and substantially that a claim to that effect could constitute an abuse of rights, which is forbidden under Article 3(2) of the Directive. However, on the facts of the case, it appears that a Polish court would not be bound in such a situation by the claim of the holder of the infringed right.<sup>12</sup>

### Section 3. Evaluation

The judgment of the ECJ in *OTK v. SFP* gives the Member States freedom to maintain or adopt provisions which offer the right holder the possibility to claim damages calculated by multiplying the license fee that would have been due (the hypothetical royalty).<sup>13</sup> In other words, it allows the awarding of punitive damages in infringement cases.<sup>14</sup> One has to be careful when using the punitive damages label. As long as the damages awarded do not exceed the actual damage suffered, the damages should not be classified as punitive, even if they are arrived at by a multiplication of the hypothetical royalty. The ECJ alludes to this in its judgment.<sup>15</sup> Only when the damages exceed the actual damage, a real punitive effect emerges.

As the Enforcement Directive does not forbid punitive damages, national legislation can employ the multiplication of the hypothetical royalty to set the appropriate damages for the infringement of an intellectual property right. The ECJ does, however, establish an upper limit: when the hypothetical royalties exceed the loss actually suffered so clearly and substantially that a claim to that effect could constitute an abuse of rights (in the sense of Art. 3[2] of

<sup>10</sup> ECJ, C-367/15, *OTK v. SFP*, para. 29.

<sup>11</sup> ECJ, C-367/15, *OTK v. SFP*, para. 30.

<sup>12</sup> ECJ, C-367/15, *OTK v. SFP*, para. 31.

<sup>13</sup> In contrast, adv. gen. Sharpston had argued that the Polish provision did not meet the requirements of Dir. 2004/48. She had, however, added that a national rule under which the rightholder may claim a sum which is limited to two or three times the license fee is not unlawful, provided that the rightholder can establish that the sum claimed is proportionate to the damage suffered: Op. adv. gen. E. SHARPSTON, 24 November 2016, C-367/15, *Stowarzyszenie "Oławska Telewizja Kablowa" v. Stowarzyszenie Filmowców Polskich*, paras 47-48.

<sup>14</sup> Note, however, the following sentence in para. 29 which might justify a different reading of the judgment: "[...] without there being any need to rule on whether or not the introduction of punitive damages would be contrary to Article 13 [...]".

<sup>15</sup> ECJ, C-367/15, *OTK v. SFP*, para. 30.

the Enforcement Directive).<sup>1617</sup> If the damages awarded by the national court surpass the actual damage suffered by the right holder while at the same time do not constitute an abuse of rights, the judgment rendered by the national court contains “real” punitive damages.

In light of this ruling of the ECJ, it is thus conceivable that national courts will award punitive damages for intellectual property rights infringements. Punitive damages are highly controversial in the EU Member States. Punitive damages are officially only available in the Common Law countries within the EU (*i.e.* England & Wales, Ireland, Northern Ireland and Cyprus), albeit in a limited number of circumstances.<sup>18</sup> In contrast to their acceptance within Common Law jurisdictions, they are said to be relatively non-existent in Civil Law countries. An important question that, therefore, arises in that regard is whether a judgment for punitive damages in intellectual property cases will be able to freely circulate in the European Union or whether Member States can reject the enforcement of such a judgment within their territory (IV). First, however, we discuss the ramifications of the judgment for the Belgian practice (III).

### Chapter III. Belgian implementation of Article 13 and effect of ECJ decision

The Enforcement Directive was transposed into Belgian law by the Acts of 9 and 10 May 2007.<sup>19</sup> As to damages the Act of 9 May 2007 provides that the wronged party is entitled to compensation of all damage suffered due to the counterfeit or the infringement. The Act does not explicitly list the criterion of the hypothetical royalty which the Directive puts forward as the minimum but the court should be able to take it into consideration when setting the damages.<sup>20</sup> In the preparatory process the question whether the damages can be of a punitive nature was not addressed. This lack of legislative debate led to controversy.<sup>21</sup> The Explanatory Memorandum of the Act of 9 May 2007 does

<sup>16</sup> ECJ, C-367/15, *OTK v. SFP*, para. 31.

<sup>17</sup> The estimation of the actual damage suffered is problematic because that is exactly what provisions allowing for the use of a hypothetical royalty want to avoid. Such provisions are inserted to offer an alternative for the difficult and costly task of calculating the actual loss: IPKat blogspot 24 February 2017, The Enforcement Directive permits punitive damages – or does it?, ipkitten.blogspot.be/2017/02/the-enforcement-directive-permits.html.

<sup>18</sup> In England, for instance, punitive damages can only be awarded in three scenarios: abuses of power by government officials, torts committed for profit, or express statutory authorization: *Rookes v. Barnard*, [1964] 1 All E.R. 367, 410-11 (H.L.).

<sup>19</sup> Wet van 9 mei betreffende de burgerrechtelijke aspecten van de bescherming van intellectuele eigendomsrechten, BS 10 mei 2007, *err.* 15 mei 2007, en wet van 10 mei betreffende de aspecten van gerechtelijk recht van de bescherming van intellectuele eigendomsrechten, BS 10 mei 2007, *err.* BS 14 mei 2007.

<sup>20</sup> C. RONSE, “De andere herstelmaatregelen en in het bijzonder de schadevergoeding”, in *Sancties en procedures in intellectuele rechten – Sanctions et procédures en droits intellectuels* (F. BRISON ed.), Brussels, Larcier, 2008, p. 237.

<sup>21</sup> J. KEUSTERMANS, P. BLOMME and M. FLAMME, *Auteursrecht – Capita selecta*, Brussels, Larcier, 2015, p. 181, no. 291; C. RONSE, “De andere herstelmaatregelen en in het bijzonder de schadevergoeding”, *op. cit.*, p. 226-227.

refer to Article 13.1 and recital 26 of the Enforcement Directive as excluding punitive damages.<sup>22</sup>

A fundamental rule runs through Belgian law: the principle of *restitutio in integrum*.<sup>23</sup> The Belgian implementation of the Enforcement Directive follows this principle.<sup>24</sup> The principle implies that the injured party is to be put in the position he or she would have been in had the damaging event not occurred.<sup>25</sup> It has also been upheld by the case law in intellectual property disputes.<sup>26</sup> A right holder is thus entitled to full compensation of the damage suffered, but nothing more than that.<sup>27</sup>

In Belgium some courts have awarded “double damages”, *inter alia* in cases concerning software. Such decisions are motivated by a desire to deter infringers.<sup>28</sup> These courts asserted that awarding the (even augmented) royalty fee has a perverse effect in that it stimulates infringers to speculate on the right holder either not noticing the infringement or remaining passive after discovery.<sup>29</sup>

The Court of Appeal of Ghent, for instance, granted damages equal to twice the license fee to Autodesk, holder of the copyright on AutoCad, a commercial computer-aided design and drafting software application.<sup>30</sup> An employee of Decorline had installed and used an illegal copy of AutoCad on his work station as well as on his home system. The Decorline company used the AutoCad software program for its activities. The Court of Appeal found an infringement of copyright and confirmed the liability of employee and employer. As to the amount of damages, the Court of Appeal noted that it cannot be established with mathematical certainty and decided to determine it *ex aequo et bono*.<sup>31</sup> It further remarked that Article 13 of the Enforcement Directive and the Software Act do not contain the principle of double damage (200 % damages). Nevertheless, the Court decided to grant Autodesk 200 % of the licensee fee, because of the material and moral damage the latter had suffered.

In the same vein, the Court of Appeal of Antwerp awarded an amount of two times the hypothetical royalty.<sup>32</sup> The case also dealt with the illegal use of the

<sup>22</sup> See the discussion of Art. 2 of the proposed bill in the Explanatory Memorandum, *Parl.St.* 2006-07, 51/2943-1-2944/1, p. 28-29.

<sup>23</sup> P. MAEYAERT, “Art. 86” in F. BRISON and H. VANHEES (eds.), *Jan Corbet Huldeboek: De Belgische auteurswet – Artikelsgewijze commentaar*, Brussels, Larcier, 2012, p. 596-597; Cass., 13 April 1995, *JT* 1995, p. 649.

<sup>24</sup> B. WEYTS, “Economische schade”, *TBH* 2013, p. 1034, no. 52.

<sup>25</sup> W. VAN GERVEN, J. LEVER and P. LAROCHE, *Tort Law*, Oxford, Hart Publ., 2000, p. 770.

<sup>26</sup> See, for instance, Ghent 22 April 1998, *IRDI* 1998, p. 232, with note B. DE VUYST; Rb. Brussels, 8 December 2004, *A&M* 2005, p. 249.

<sup>27</sup> J. KEUSTERMANS, P. BLOMME and M. FLAMME, *Auteursrecht – Capita selecta*, *op. cit.*, p. 184, no. 294.

<sup>28</sup> C. RONSE, “De andere herstelmaatregelen en in het bijzonder de schadevergoeding”, *op. cit.*, p. 232.

<sup>29</sup> *Ibid.*, p. 232, footnote 28, with further ref. to M. BUYDENS, “La réparation du dommage en droit de la propriété industrielle”, *TBH* 1995, p. 450, no. 3; M. BUYDENS, *Droit des brevets d'invention et protection du savoir-faire*, Brussels, Larcier, 1999, p. 241-244, nos. 453-454; A. PUTTEMANS, “Les droits intellectuels en action(s)” in P. JADOUL and A. STROWEL (eds.), *Les droits intellectuels: développements récents*, Brussels, Larcier, 2004, p. 38-39, no. 40; S. MALENGREAU, “Atteinte aux droits d'auteur: dommage et interest”, *IRDI* 2003, p. 201-203; A. PUTTEMANS, “Les droits intellectuels en action(s)”, *op. cit.*, p. 72-74, nos. 96-97.

<sup>30</sup> Ghent 19 January 2009, *A&M* 2009, p. 384 with note J. KEUSTERMANS and T. DE MAERE.

<sup>31</sup> This is a common practice: P. MAEYAERT, “Art. 86”, *op. cit.*, p. 597.

<sup>32</sup> Antwerp 13 October 2008, *A&M* 2009, p. 391, with note J. KEUSTERMANS.

software program AutoCad. The Court of Appeal found that a mathematical calculation is not possible. It did underline that the copyright holder's damage is greater than the mere loss of the sale of its product. It referred to the different components of the damage suffered by AutoDesk: loss of profit, moral damage, damage as a consequence of having to search for illegal software, disruption of the normal market economy by the infringer etc. Consequently, the Court deemed a doubling of the license fee to be appropriate (thereby reversing the first judge's use of a 1.5 coefficient).

Reference can also be made to a decision of the Court of first instance of Leuven.<sup>33</sup> The Court in that case clearly stated that the payment of the fee for reproduction rights without damages is insufficient. It would encourage people not to seek consent for the use of protected works and to speculate on the subsequent non-action of the right holder.

While these decisions at first sight appear to conflict with the principle of *restitutio in integrum*, an important nuance needs to be made. Even if courts sporadically employ language (such as terms like "double damage") that seems to indicate an escape from the full compensation corset, it needs to be assessed whether the Court's judgment is also a *de facto* departure from the principle of *restitutio in integrum*. In fact, as long as these "double damages" do not exceed the actual damage suffered, courts do not grant real punitive damages.<sup>34</sup> The judgment of the Court of Appeal of Ghent mentioned above forms a good illustration in that regard.<sup>35</sup> The doubling of the payment that would have been due if consent was sought corresponds *in casu* to actual damage suffered.<sup>36</sup> It is inspired by the Court's efforts to provide as full a compensation as possible. This quest to make the right holder whole has deterrence as a side-effect. Despite having attached a "double damage" label to its ruling, the Court has thus awarded a "single damage".<sup>37</sup> The use of such unfortunate terminology, however, needs to be avoided as it suggest an arbitrary assessment of the damage suffered.<sup>38</sup>

Further evidence can be found in a judgment of the Belgian Supreme Court of 2009.<sup>39</sup> The Court of Appeal of Liège had awarded damages consisting of two aspects: 1) the amount due had the infringer requested and obtained the right holder's consent; and 2) 25 % of the previous amount because of the exceptional administrative costs and the right holder's need to finance the costs for detecting and pursuing piracy and counterfeit. The underlying purpose of

<sup>33</sup> Rb. Leuven 2 May 2006, *A&M* 2006, p. 457.

<sup>34</sup> Of course, nothing stops courts from granting real punitive damages but disguising them by considering that the inflated damages correspond to actual damage suffered: B. WEYTS, "Economische schade", *op. cit.*, p. 1036, no. 57.

<sup>35</sup> See Rb. Kortrijk 24 April 2004, *A&M* 2005, p. 57; for another ex.: C. RONSE, "De andere herstelmaatregelen en in het bijzonder de schadevergoeding", *op. cit.*, p. 235, footnote 35.

<sup>36</sup> For another view, F. PETILLION, "Schadevergoeding voor inbreuken op intellectuele rechten: *ex aequo et malo*", *Computerrecht* 2009, p. 227 (case note under Ghent 19 January 2009).

<sup>37</sup> J. CEUSTERMANS and T. DE MAERE, "Foutbegrip en schadevergoeding in het auteursrecht: double damage?", *A&M* 2009, p. 391 (case note under Ghent 19 January 2009).

<sup>38</sup> See in that sense F. PETILLION, "Schadevergoeding voor inbreuken op intellectuele rechten: *ex aequo et malo*", *op. cit.*, p. 227 (case note under Ghent 19 January 2009).

<sup>39</sup> Cass. 13 May 2009, AR P. 09.0121.F, www.cass.be, *A&M* 2009, p. 384.

the 25 % increase was its deterrent effect. Deterrence cannot be achieved by merely exposing an infringer to the risk of having to pay the license fee after all. The Supreme Court reversed the judgment and held that neither the need to finance the universal combat against violations of intellectual property nor the deterrent character of a lump sum on top of the fee that was dodged can justify the awarding of this amount as the actual damage suffered by the right holder. The Supreme Court thus allows “multiple damages” if the actual damage is higher than the fee that would have been due. The expansion of damages may, however, not be motivated by a deterrent purpose or by the motive to compensate for costs attached to the *general*<sup>40</sup> battle against counterfeit goods.<sup>41</sup>

There will undoubtedly be cases where damages do surpass the actual damage<sup>42</sup> and real punitive damages thus emerge. Such rulings are not problematic because the European Court of Justice allows damages in excess of real damage as long as there is no abuse of rights. The ECJ judgment in *OTK v. SFP* should, therefore, only have a limited impact on the manner in which the Belgian judiciary applies the transposition of the Enforcement Directive. The European Court of Justice has actually set the permissible upper boundary higher than the full compensation limit most courts adhere to anyways.

It is thus possible that a Belgian court does ignore the basic principle of full compensation (and according to the *OTK v. SFP* decision it is allowed to do so as long as it is wary of an abuse of rights). Likewise, courts in other (EU) countries might award damages in amounts going above the actual damage. This situation is discussed in parts IV and V.

## Chapter IV. Enforcement of intra-EU punitive damages judgments

The enforcement of judgments in civil and commercial cases in the European Union is regulated by the Brussels *Ibis* Regulation.<sup>43</sup> The Regulation replaced the Brussels I Regulation<sup>44</sup> as of 10 January 2015 and facilitates the free circulation of judgments within the EU. The Brussels I Regulation required a declaration of enforceability (*exequatur*) for a judgment given in a Member State to be enforced in another Member State.<sup>45</sup> The Brussels *Ibis* Regulation substantially simplifies the system put in place by the Brussels I Regulation as it abolishes the need for an *exequatur*.

<sup>40</sup> Leaving the door open for compensation of detection and combat costs in a specific case: Brussels 13 April 1995, *Pas.* 1995, II, p. 21; Corr. Brussels 21 February 2008, *A&M* 2008, p. 113.

<sup>41</sup> P. MAEYAERT, “Art. 86” in F. Brison and H. Vanhees (eds.), *Jan Corbet Huldeboek: De Belgische auteurswet – Artikelsgewijze commentaar*, Brussels, Larcier, 2012, *op. cit.*, p. 598.

<sup>42</sup> C. RONSE, “De andere herstelmaatregelen en in het bijzonder de schadevergoeding”, *op. cit.*, p. 232; B. WEYTS, “Economische schade”, *op. cit.*, p. 1034, no. 53.

<sup>43</sup> Regul. (EU) no. 1215/2012 of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters, *OJEU*, no. L351/1 of 20 December 2012.

<sup>44</sup> Regul. (EC) no. 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters, *OJEC*, no. L12 of 15 January 2001.

<sup>45</sup> Art. 38.1 Brussels I Regul.



The Brussels *Ibis* Regulation, nevertheless, still provides for grounds to refuse enforcement of a judgment. Article 46 refers to the grounds for refusal of recognition of a judgment in Article 45. The first ground of refusal (Art. 46 *in*cto Art. 45, 1, a) is relevant in the context of punitive damages. Member States shall reject enforcement of the judgment if the enforcement is manifestly contrary to public policy (*ordre public*) in the Member State addressed.

The notion of public policy or *ordre public* refers to the common core of principles that are vital for the effective operation and social acceptance of a legal system. It reflects the fundamental socio-economic and moral values of a society.<sup>46</sup> It has both a procedural and a substantive dimension.<sup>47</sup> For punitive damages the latter is usually the most relevant of the two.<sup>48</sup>

Private international law cases, however, deal with a more restricted form of public policy, namely international public policy.<sup>49</sup> The latter is, despite the name, a purely national concept.<sup>50</sup> Only international public policy can act as a barrier to the enforcement of a foreign judgment. It contains those fundamental rules of domestic or internal public policy which a legal system wants respected in international cases as well.<sup>51,52</sup> In enforcement cases comity requires a legal system to be more tolerant than it would be in purely domestic affairs.<sup>53</sup> Moreover, it is not the foreign decision that must be scrutinised but the concrete effect its application or enforcement generates in the forum.<sup>54</sup>

International public policy works in a negative way,<sup>55</sup> in the sense that it acts as a gatekeeper to keep away foreign judgments that are absolutely unacceptable

<sup>46</sup> H. AUF'MKOLK, "U.S. punitive damages awards before German courts – Time for a new approach", *Freiburg L. Stud. J.*, 2007, p. 4.

<sup>47</sup> H. GAUDEMET-TALLON, *Compétence et exécution des jugements en Europe*, Paris, LGDJ, 2010, no. 402 and ff.

<sup>48</sup> J. DOLLINGER, "World Public Policy: Real International Public Policy in the Conflict of Laws", 17 *Tex. Int'l L.J.*, 1982, p. 170; M. REQUEJO ISIDRO, "Punitive Damages: How Do They Look Like When Seen From Abroad?" in L. MEURKENS and E. NORDIN (eds.), *The Power of Punitive Damages – Is Europe Missing Out?*, Cambridge/Antwerp/Portland, Intersentia, 2012, p. 323.

<sup>49</sup> P. MAYER and V. HEUZÉ, *Droit international privé*, Paris, Montchrestien, 2004, p. 149, no. 205; A. MILLS, *The Confluence of Public and Private International Law – Justice, Pluralism and Subsidiarity in the International Constitutional Ordering of Private Law*, Cambridge, CUP, 2009, p. 275-277; A. MILLS, "The Dimensions of Public Policy in Private International Law", *J.Priv.Int'l L.* 2008, p. 213; P. BERNARD and H. SALEM, "Further developments for qualification of foreign judgments for recognition and enforcement in France: the test for punitive damage awards", *Int'l Bar Ass.* 2011, p. 18.

<sup>50</sup> J. DOLLINGER, "World Public Policy: Real International Public Policy in the Conflict of Laws", *op. cit.*, p. 170.

<sup>51</sup> A.S. SIBON, "Enforcing Punitive Damages Awards in France: Facing Proportionality within International Public Policy", no page numbers, available at [ssrn.com/abstract=2382817](http://ssrn.com/abstract=2382817).

<sup>52</sup> Both concepts can be visualised as two concentric circles, with domestic public policy being the larger of the two. All principles belonging to international public policy also have domestic public policy status but not vice versa.

<sup>53</sup> B. JANKE and F.-X. LICARI, "Enforcing Punitive Damage Awards in France after Fountaine Pajot", 60 *Am.J.Comp.L.* 2012, p. 792.

<sup>54</sup> V. BEHR, "Punitive Damages in American and German Law – Tendencies Towards Approximation of Apparently Irreconcilable Concepts", 78 *Chi.-Kent L.Rev.* 2003, p. 153; P. KLÖTGEN, "L'appréhension des punitive damages par le droit allemande", *Rev.Lamy Dr.aff.* 2013, p. 126; BGH, 26 September 1979, *BGHZ* 1980, p. 171; B. JANKE and F.-X. LICARI, "Enforcing Punitive Damage Awards in France after Fountaine Pajot", *op. cit.*, p. 792.

<sup>55</sup> A. DICKINSON, *The Rome II Regulation – The Law Applicable to Non-Contractual Obligations*, Oxford/New York, OUP, 2008, p. 631, no. 15.13; A.J. BELOHLAVEK, "Public Policy and Public Interest in International Law and EU Law", *Czech Yearb. Int'l L.* 2012, p. 144.

when measured against domestic legal standards.<sup>56</sup> For the activation of international public policy it is not sufficient that the solution offered by the foreign nation is different,<sup>57</sup> it has to be shocking for the forum.<sup>58</sup> International public policy thus protects the whole of fundamental societal values from phenomena that are at odds with it, through negation.<sup>59</sup>

It seems unlikely that a punitive award originating in one Member State will be denied enforcement in another Member State. As far as we are aware no reported case law has dealt with this situation.<sup>60</sup> Member States' courts should not decline the enforcement of punitive damages granted by a court of another Member State. The restrictive wording of the public policy exception in Article 45, 1, a) of the Brussels *Ibis* Regulation (a *manifest* contrariety with public policy is required to justify refusal) and the principle of mutual trust between Member States support this contention.<sup>61</sup>

## Chapter V. Enforcement of third State punitive damages judgments in the EU

This contribution has thus far approached punitive damages exclusively from an EU perspective. It is, however, equally interesting to discuss whether third State judgments containing punitive damages for intellectual property violations will be able to penetrate the borders of “Fortress Europe” and be granted enforcement here.

<sup>56</sup> H. AUF'MKOLK, “U.S. punitive damages awards before German courts – Time for a new approach”, *op. cit.*, p. 5.

<sup>57</sup> A. DICKINSON, *The Rome II Regulation – The Law Applicable to Non-Contractual Obligations*, *op. cit.*, p. 626, no. 15.04.

<sup>58</sup> G. CUNIBERTI, “The Liberization of the French Law of Foreign Judgments”, 56 *Int'l Comp.L.Q.* 2007, p. 933.

<sup>59</sup> A.J. BELOHLAVEK, “Public Policy and Public Interest in International Law and EU Law”, *op. cit.*, p. 142.

<sup>60</sup> In a case before the *Oberlandesgericht* Düsseldorf, the public policy obstacle did come into play for – what we believe to be – punitive damages. The *Oberlandesgericht* was confronted with a Dutch judgment awarding an employee 50 % on top of his unpaid wages. Art. 7:625 of the Dutch Civ. C. imposes a pecuniary sanction on the employer who does not pay the salary of his employee within 3 days after it is due. The worker is entitled to an additional payment of 5 % per day of delay after this 3 day period. From the sixth day after the 3 day period has elapsed the increase is 1 % per day. The total increase can never exceed 50 % of the wages. The applicant requested enforcement of the default judgment in Germany. The Court did not find a violation of the public policy exception of the Brussels I Regul. (which is identical to the public policy exception under the Brussels *Ibis* Regul.). The sanction was not deemed sufficiently comparable to punitive damages. The penal monopoly of the state is not affected by the increase for delay in payment. Although the 50 % increase is a high number, it does not reach the threshold for unenforceability. For a discussion of the judgment of 4 April 2011, see M. WÜRDINGER, “Der ordre public-Vorbehalt bei Verzugsaufschlägen im niederländischen Arbeitsrecht”, *IPRax* 2013, p. 323-324. We (partly) disagree with the qualification by the German Court. If the interest exceeds the average interest demanded by banks for loans, it goes beyond compensation and steps into the realm of punishment. Therefore, to the extent that the damages awarded in this dispute do amount to punitive damages, the case can serve as an example of the acceptance of intra-EU judgments for punitive damages.

<sup>61</sup> M. REQUEJO ISIDRO, “Punitive Damages: How Do They Look Like When Seen From Abroad?”, *op. cit.*, p. 326-327.

## Section 1. Occurrence

Outside the EU, Common Law countries such as Australia, New Zealand, Canada and South Africa provide for this type of damages. The most important source of punitive damages judgments is, however, the United States. The United States produces the most punitive damages judgments and its awards<sup>62</sup> reach the highest amounts.<sup>63</sup>

The remedy of punitive damages is, alongside, for instance, contingency fees, discovery and class actions, one of the characteristics of the American legal system which exemplifies the contrast between Civil Law and Common Law. The stark divergence in approach, referred to as “the Atlantic divide”<sup>64</sup>, between dualistic<sup>65</sup> Common Law and monistic<sup>66</sup> Civil Law jurisdictions makes punitive damages an interesting study subject from a private international law perspective. The field of private international law is where the Civil Law’s level of tolerance for this “[undesired] peculiarity of American law”<sup>67</sup> is tested.

In the U.S. punitive damages most often arise under State tort law.<sup>68</sup> Each State of the U.S. has a wide discretion in imposing punitive damages. The federal system of the U.S. has created considerable diversity among the 50 States as to the form and content of punitive damages.<sup>69</sup> In addition to the various State laws, the federal level also provides for punitive damages in certain statutes. The availability of punitive damages is in principle restricted to tort actions.<sup>70</sup> The fact that the defendant has acted in an unlawful manner does not suffice for punitive damages to be awarded. The conduct in question must involve a degree of aggravation.<sup>71</sup> The Restatement of Torts emphasises that “punitive damages may be awarded for conduct that is outrageous, because of the defendant’s evil motive or his reckless indifference to the rights of others”.<sup>72</sup> Across the different American States a varying terminology is employed to express the required high standard of misconduct: “egregious”, “reprehensible”, “bad faith”, “fraud”, “malice”, “oppression”, “outrageous”, “violent”, “wanton”,

<sup>62</sup> The term “award” here does not refer to arbitral awards but rather to a portion of a court judgment.

<sup>63</sup> C.I. NAGY, “Recognition and enforcement of US judgments involving punitive damages in continental Europe”, *Nederlands Internationaal Privaatrecht* 2012, p. 4.

<sup>64</sup> E. DE KEZEL, “The Protection and Enforcement of Private Interests by (the Recognition of US) Punitive Damages in Belgium” in *The Power of Punitive Damages – Is Europe Missing Out?*, *op. cit.*, p. 214.

<sup>65</sup> This notion characterises legal systems which provide for compensatory damages as well as punitive damages.

<sup>66</sup> This term refers to legal systems where only compensatory damages are available.

<sup>67</sup> E. DE KEZEL, “The Protection and Enforcement of Private Interests by (the Recognition of US) Punitive Damages in Belgium”, *op. cit.*, p. 235.

<sup>68</sup> A.J. SEBOK, “The U.S. Supreme Court’s Theory of Common Law Punitive Damages” in *The Power of Punitive Damages – Is Europe Missing Out?*, *op. cit.*, p. 133.

<sup>69</sup> W. SCHUBERT, “Simplifying Punitive Damages: Due Process and the Pursuit of Manageable Awards and Procedures in U.S. Courts”, *Eur.J.Consumer L.* 2011, p. 832; A.J. SEBOK, “Punitive Damages in the United States”, in *Punitive Damages: Common Law and Civil Law Perspectives* (H. KOZIOL and V. WILCOX eds), Vienna, Springer, 2009, p. 156.

<sup>70</sup> 22 Am. Jur. 2d Damages, § 568, 569, 570; 25 C.J.S. Damages, § 198-200.

<sup>71</sup> 22 Am. Jur. 2d Damages, § 569; L. MEURKENS, “The punitive damages debate in Continental Europe: food for thought”, in *The Power of Punitive Damages – Is Europe Missing Out?*, *op. cit.*, p. 10.

<sup>72</sup> Restatement of Torts, § 908.

“wicked” and “reckless”.<sup>73</sup> Mere negligence can never form the basis for a punitive damages award.<sup>74</sup>

In the field of intellectual property law, some States make punitive damages available to the right holder. In trademark infringement cases in Alaska, for instance, the court may enter judgment for punitive damages in an amount not exceeding three times the profits and damages.<sup>75</sup> The law of Minnesota provides that the court, in its discretion, may enter judgment for an amount not to exceed three times the profits and damages and reasonable attorneys’ fees of the prevailing party if the court finds the other party committed the wrongful acts with knowledge or in bad faith or otherwise as according to the circumstances of the case.<sup>76</sup>

In the context of patent law, Section 284 of the U.S. Patent Act provides, in its relevant part: “[...] the court may increase the damages up to three times the amount found or assessed”.<sup>77</sup> U.S. District Judge Leonard Davis of the Eastern District of Texas, for example, awarded USD 200 million in compensatory damages and USD 40 million in punitive damages, based on Microsoft’s wilful infringement of a patent owned by i4i Limited Partnership.<sup>78</sup>

## Section 2. Legal framework for enforcement in the EU

If the enforcement of an American judgment containing punitive damages is requested in the EU, the Brussels *Ibis* Regulation does not apply because that instrument only deals with intra-EU judgments. There is no treaty between the European Union and the United States arranging for the mutual recognition and enforcement of judgments. Individual Member States equally have not concluded bilateral or multilateral conventions with the United States. The recognition and enforcement of U.S. decisions in the examined EU Member States is, therefore, governed by the respective countries’ national rules of private international law.

The decision whether to grant enforcement to American awards of punitive damages or to refuse it boils down to the question whether exequatur of the award would be compatible with the public policy of the requested forum. All cases regarding the enforcement of US punitive damages in the EU Member States have been decided under this ground of refusal but with different outcomes.

It is once again underlined that international cases trigger the more narrow concept of international public policy. This is the appropriate yardstick when

<sup>73</sup> 22 Am. Jur. 2d Damages, § 558; A.J. SEBOK, “Punitive Damages in the United States”, *op. cit.*, p. 181; K. BROWNE, *Punitive damages in the U.S.: a primer for insurance buyers and brokers*, Armonk, Swiss Re, 2011, p. 4.

<sup>74</sup> 25 C.J.S. Damages, § 205; L.L. SCHLUETER, *Punitive Damages – Volume I*, Newark, LexisNexis 2005, p. 162.

<sup>75</sup> Alaska Stat. 45.50.180.(b).

<sup>76</sup> M.S.A. § 333.29.

<sup>77</sup> 35 U.S.C. § 284.

<sup>78</sup> Final judgment available at [patentlyo.com/20090811i4ijudgment.pdf](http://patentlyo.com/20090811i4ijudgment.pdf).

dealing with cases which are not purely domestic. In cases with a cross-border element a legal system is supposed to be more tolerant and cannot impose its rules of domestic public policy on the matter.<sup>79</sup>

### Section 3. Likelihood of enforcement in the EU

Case law dealing with the enforcement of U.S. punitive damages in the European Union is sparse. Italy, Germany, France and Spain are particularly interesting because the Supreme Courts of those countries have decided on the issue of the enforceability of American punitive damages. A comparative analysis reveals that the case law in these selected countries is relatively divergent as to the stance adopted towards foreign punitive damages, resulting in different degrees of acceptance of this legal remedy.<sup>80</sup>

#### § 1. Positive signals from Spain and France

The judgment of the Spanish Supreme Court (*Tribunal Supremo*) in *Miller Import Corp. v. Alabastres Alfredo, S.L.* of 13 November 2001 catches the eye because the American decision concerned intellectual property law.<sup>81</sup> The U.S. court awarded treble damages for trademark violations. Treble damages are a form of punitive damages arrived at by trebling the compensatory award.<sup>82</sup> The punitive portion of the award will thus amount to twice the compensatory damages. At the time, the civil division of the Spanish Supreme Court had exclusive jurisdiction over a request for enforcement of judgments coming from abroad.<sup>83</sup> Litigation between the plaintiffs Miller Import Corp. (domiciled in the U.S.) and Florence S.R.L. (domiciled in Italy) and defendant Alabastres Alfredo, S.L. (domiciled in Spain) arose before the Federal District Court for the Southern District of Texas (Houston Hall) in Houston. The plaintiffs alleged that the Spanish defendant had infringed intellectual property rights by manufacturing falsified labels of a registered trademark in Spain. In a judgment of 21 August 1998, the American court followed the plaintiffs' arguments and granted them treble damages.<sup>84</sup> Before the *Tribunal Supremo* the defendant argued, among other things, that enforcement should be refused on public policy grounds.

After noting that punitive damages are not acknowledged in Spanish law, the Supreme Court first emphasised that its intent was not to usurp legislative

<sup>79</sup> B. JANKE and F.-X. LICARI, "Enforcing Punitive Damage Awards in France after Fountaine Pajot", *op. cit.*, p. 792.

<sup>80</sup> For a more extensive analysis than the one provided in this contribution, see C. VANLEENHOVE, *Punitive Damages in Private International Law: Lessons for the European Union*, Cambridge/Antwerp/Portland, Intersentia, 2016, p. 87-146.

<sup>81</sup> Span. Supr. Ct, 13 November 2001, *Exequatur* no. 2039/1999, *Aedipr.* 2003, p. 914.

<sup>82</sup> *Supra*, part IV.1., ex. of U.S. provisions allowing for such treble damages in trademark law were mentioned.

<sup>83</sup> F. RAMOS ROMEU, "Litigation Under the Shadow of an *Exequatur*: The Spanish Recognition of U.S. Judgments", *Int'l Lawyer* 2004, p. 951; M. REQUEJO ISIDRO, "Punitive Damages – Europe Strikes Back?", presentation delivered at the British Institute of International and Comparative Law, 2 November 2011, London, text on file with the author.

<sup>84</sup> Federal District Court for the Southern District of Texas (Houston Hall), 21 August 1998, unpubl. and archived. The exact amount of the treble damages is unknown as it is not mentioned in the judgment of the Spanish Supreme Court.

competence in the matter but rather to assess the foreign judgment under substantive public policy as identified by Spanish courts.<sup>85</sup>

It remarked that the Texas money award contained some damages that did not serve a compensatory objective but were more punitive, sanction-like and preventive in nature. The court classified compensation for injuries as part of (Spanish) international public policy. However, it added that coercive, sanctioning mechanisms are not uncommon in the areas of (Spanish) substantive law, specifically contract law, and procedure. According to the Court the presence of such punitive mechanisms in private law to compensate the shortcomings of criminal law is consistent with the doctrine of minimum intervention in penal law. This doctrine is embedded in the Spanish legal system and requires the legislature to first counter unwanted conduct by employing less invasive remedial intervention, such as civil penalties. Criminal penalties should only be used as *ultimum remedium*.<sup>86</sup> Furthermore, it is often difficult to differentiate concepts of compensation. The example of moral damages to which the Court refers makes this point clear. Moral damages fulfil a compensatory role (the reparation of moral damage) as well as a sanctioning function and it is not easy to distinguish between the two.<sup>87</sup> In Spanish law, a minimal overlap between civil law (compensation) and criminal law (punishment) is thus not completely unknown.<sup>88</sup> In making their public policy analysis, the Court finally added, courts should not lose sight of the connection between the matter and the (Spanish) forum. This is of course a reference to the theory of *Inlandsbeziehung*, which regulates the strength of the public policy exception according to the case's proximity to the forum.<sup>89</sup> All these reasons led the Court to the conclusion that punitive damages as a concept do not oppose public policy.<sup>90</sup>

This finding however did not end the public policy test. The principle of proportionality was the second and final yardstick the award needed to overcome before enforcement could be allowed. The Court considered two elements to be relevant when assessing the (potentially) excessive nature of the treble damages: (1) the predictability of the award and (2) the nature of the interests protected.<sup>91</sup>

<sup>85</sup> S.R. JABLONSKI, "Translation and comment: enforcing U.S. punitive damages awards in foreign courts – a recent case in the Supreme Court of Spain", 24 *J.L. & Comm.* 2004-05, p. 229.

<sup>86</sup> F. QUARTA, "Class Actions, Extra-Compensatory Damages, and Judicial Recognition in Europe", Conference paper – Extraterritoriality and Collective Redress, London, 15 November 2010, Draft 19 November 2010, p. 10.

<sup>87</sup> C.I. NAGY, "Recognition and enforcement of US judgments involving punitive damages in continental Europe", *op. cit.*, p. 9.

<sup>88</sup> S.R. JABLONSKI, "Translation and comment: enforcing U.S. punitive damages awards in foreign courts – a recent case in the Supreme Court of Spain", *op. cit.*, p. 229; C.I. NAGY, "Recognition and enforcement of US judgments involving punitive damages in continental Europe", *op. cit.*, p. 9.

<sup>89</sup> M. REQUEJO ISIDRO, "Punitive Damages: How Do They Look Like When Seen From Abroad?", *op. cit.*, p. 326-327; *id.*, "Punitive Damages From a Private International Law Perspective" in H. KOZIOL and V. WILCOX (eds.), *Punitive Damages: Common Law and Civil Law Perspectives*, Vienna, Springer, 2009, p. 247.

<sup>90</sup> Span. Supr. Ct, 13 November 2001, *Exequatur* no. 2039/1999, aforesaid, p. 914; M. OTERO CRESPO, "Punitive Damages Under Spanish Law: A Subtle Recognition?" in *The Power of Punitive Damages – Is Europe Missing Out?*, *op. cit.*, p. 289; M. REQUEJO ISIDRO, "Punitive Damages From a Private International Law Perspective", *op. cit.*, p. 247-248; *id.*, "Punitive Damages: How Do They Look Like When Seen From Abroad?", *op. cit.*, p. 326.

<sup>91</sup> M. REQUEJO ISIDRO, "Punitive Damages: How Do They Look Like When Seen From Abroad?", *op. cit.*, p. 327-328.

The Court first referred to the fact that the treble damages arose *ex lege*. The legal provisions sanctioning infringements of the intellectual property rights at hand took the intentional character and the gravity of the defendant's behaviour into account and foresaw a tripling of the amount of compensatory damages. This reliance on the statutory origin of the punitive damages begs the question whether punitive damages developed by case law would be predictable enough for the Spanish Supreme Court.<sup>92</sup> In our opinion, the absence of a written provision would not automatically rule out the enforcement of the judgment.<sup>93</sup> One wonders what would happen to punitive awards coming from States where punitive damages legislation does not provide for caps.<sup>94</sup> In those States the only restraint on the amount of punitive damages comes from the American courts, most notably from the U.S. Supreme Court's case law regarding due process. The Spanish Supreme Court confirmed that the U.S. courts are prudent in policing the proportionality of damages awarded.<sup>95</sup> Moreover, legality leads to foreseeability but it does not guarantee proportionality. The legislature's intervention to fix the amount of the punitive damages (whether by establishing a maximum, a minimum or an appropriate range) does not make the award proportional in all cases. Furthermore, the foreign country's idea of proportionality may vary from the Spanish legislature's estimation.<sup>96</sup>

As to the second aspect of the proportionality criterion the Court argued that in a market economy the safeguarding of intellectual property rights is important. Moreover, this interest in offering protection to such rights is not strictly local but is shared universally by countries that harbour similar judicial, social and economic values.<sup>97</sup> The common desire to protect the interests at stake justified the awarding of an amount of twice the compensatory damages on top of the compensation granted.<sup>98</sup> Consequently, the *Tribunal Supremo* allowed the enforcement of the American treble damages judgment.

The progressive attitude of the Spanish Supreme Court is shared by its French counterpart (*Cour de cassation*). Although the case arose outside of the area of intellectual property law, the Court's reasoning can also be applied to punitive damages for intellectual property infringements. In *Schlenka & Langhorne v. Fontaine Pajot* it ruled: “[...] le principe d'une condamnation à des dommages-intérêts punitifs, n'est pas, en soi, contraire à l'ordre public, il en est autrement lorsque le montant alloué est disproportionné au regard du préjudice subi et des manquements aux obligations contractuelles du débiteur [...]” (“[...] the principle of awarding punitive damages is not, in itself, contrary to public policy; this is not the case when the amount awarded is disproportional to the

<sup>92</sup> *Ibid.*, 328.

<sup>93</sup> *Id.*, “Punitive Damages – Europe Strikes Back?”, *op. cit.*

<sup>94</sup> *Ibid.*

<sup>95</sup> Span. Supr. Ct 13 November 2001, *Exequatur* no. 2039/1999, aforesaid, p. 914; S.R. JABLONSKI, “Translation and comment: enforcing U.S. punitive damages awards in foreign courts – a recent case in the Supreme Court of Spain”, *op. cit.*, p. 229.

<sup>96</sup> M. REQUEJO ISIDRO, “Punitive Damages – Europe Strikes Back?”, *op. cit.*

<sup>97</sup> Span. Supr. Ct 13 November 2001, *Exequatur* no. 2039/1999, aforesaid, p. 914.

<sup>98</sup> S.R. JABLONSKI, “Translation and comment: enforcing U.S. punitive damages awards in foreign courts – a recent case in the Supreme Court of Spain”, *op. cit.*, p. 230.

loss suffered and to the contractual breach of the debtor [...]” (own transl.).<sup>99</sup> According to the French Supreme Court, punitive damages are in themselves not contrary to (international) public policy. This position is reminiscent of the Spanish Supreme Court’s receptive attitude in *Miller v. Alabastres*. American punitive damages can, therefore, in principle be enforced in France. The ruling makes it clear that objections against the enforcement of punitive damages based on the argument that they violate the divide between criminal and private law should be dismissed.<sup>100</sup>

This liberal, welcoming position of France’s Supreme Court is very tolerant but does not mean that the openness to punitive damages is unbridled. The French Supreme Court attached a crucial caveat to the general rule. Punitive damages do violate international public policy when their amount is “disproportional to the damage suffered and the breach of the contractual obligations of the debtor” (own transl.). In other words: although the concept of punitive damages conforms to international public policy, the proportionality of the award is still a rule of international public policy.<sup>101</sup> The centre of the public policy analysis shifts from the incompatibility of the concept of punitive damages itself to an investigation of their amount.<sup>102</sup> The real obstacle for punitive damages under the (international) public policy test is no longer the compensation dogma but rather the distinct issue of excessiveness. This corresponds to the attitude of the Spanish Supreme Court in *Miller Import Corp. v. Alabastres Alfredo, S.L.*

The Supreme Court’s ruling in *Schlenka & Langhorne v. Fontaine Pajot* did not contain concrete guidelines on how to determine whether a foreign punitive award is excessive. It merely provided that punitive damages should not be disproportionate in relation to the injury suffered and the breach of the contractual obligations of the debtor. One possible reading of the judgment suggests that the French Supreme Court required a comparison between the amount of punitive damages and the amount of compensatory damages awarded (or in the words of the Court: the injury suffered).<sup>103</sup> The *Cour de cassation* concluded in that regard that the punitive damages largely exceeded the compensatory damages (the difference between both being USD 70.000).<sup>104</sup> This could be interpreted as establishing a 1:1 maximum ratio between punitive and compensatory damages.<sup>105</sup>

<sup>99</sup> Cass. Fr. (1st Civ.) 1 December 2010, *Schlenzka & Langhorne v. Fontaine Pajot S.A.*, no. 09-13303, *Rec.D.* 2011, p. 423.

<sup>100</sup> F.-X. LICARI, “La compatibilité de principe des punitive damages avec l’ordre public international: une décision en trompe-l’œil de la Cour de cassation?”, *Rec.D.*, 10 February 2011, p. 425.

<sup>101</sup> A.S. SIBON, “Enforcing Punitive Damages Awards in France: Facing Proportionality within International Public Policy”, no page numbers, available at [ssrn.com/abstract=2382817](http://ssrn.com/abstract=2382817).

<sup>102</sup> B. JANKE and F.-X. LICARI, “Enforcing Punitive Damage Awards in France after Fontaine Pajot”, *op. cit.*, p. 794-795.

<sup>103</sup> For a second interpretation, see C. VANLEENHOVE, Punitive Damages in Private International Law: Lessons for the European Union, *op. cit.*, p. 134-135, nos 308-309.

<sup>104</sup> Cass. Fr. (1st civ.) 1 December 2010, *Schlenzka & Langhorne v. Fontaine Pajot S.A.*, aforesaid, p. 423; N. MEYER FABRE, “Recognition and Enforcement of U.S. Judgments in France – Recent Developments”, *The International Dispute Resolution News* spring 2012, p. 9.

<sup>105</sup> S. LOOTGIETER, “Punitive damages and French courts”, originally retrieved from [lacba.org/Files/Main Folder/Sections/International Law/Files/120313-PUNITIVE DAMAGES AND FRENCH COURTS.pdf](http://lacba.org/Files/Main Folder/Sections/International Law/Files/120313-PUNITIVE DAMAGES AND FRENCH COURTS.pdf), p. 3; N. MEYER FABRE, “Enforcement Of U.S. Punitive Damages Award in France: First Ruling Of The French Court Of Cassation” in *X. v. Fontaine Pajot*, December 1, 2010”, *Mealey’s International Arbitration Report*, January 2011, p. 4.



Although the punitive damages did not survive the Supreme Court's scrutiny, the decision in *Schlenka & Langhorne v. Fontaine Pajot* is good news for holders of intellectual property rights in the U.S. The 1:1 maximum ratio between punitive and compensatory damages means that compensatory damages for infringement can be doubled by American judges, without risk of unenforceability in France. Provisions such as Section 284 of the Patent Act or state provisions such as the ones in Alaska or Minnesota (*see supra*, Chapter IV, Section 1) allow multiplication *up to* three times the amount of compensatory damages. Treble damages will not be accepted in France (in contrast to Spain) but double damages should not pose issues as far as enforcement is concerned.

## § 2. *Aversion and hostility in Italy and Germany*

It is, however, not all roses for right holders wishing to enforce American punitive damages judgments in the EU. The Supreme Courts of Italy and Germany have traditionally exhibited an attitude of distrust and antipathy towards punitive damages. Like *Schlenka & Langhorne v. Fontaine Pajot*, the cases are situated outside the realm of intellectual property rights but the decisions of the Courts, nevertheless, have implications for punitive damages against intellectual property infringers as well.

The judgments of the Supreme Courts of Italy and Germany represent the traditional European disapproving position toward U.S. punitive damages. They rejected punitive damages because they argued that the concept itself violates international public policy. In 2007, in *Glebosky v. Fimez*, the Italian *Corte di Cassazione* refused to accept that Italian private law holds any punitive considerations. It found that penalty clauses and moral damages are not comparable to punitive damages.<sup>106</sup> Five years later, it reiterated this position by stating that the Italian civil liability rules only pursue compensatory, and not punitive, aims.<sup>107</sup> However, a very recent ruling of 5 July 2017 seems to represent a Copernican revolution in Italy.<sup>108</sup> Punitive damages are no longer held to be contrary to Italian public policy. Instead, the (potential) excessive nature of the punitive damages award is the only yardstick to be employed. With the judgment Italy switches to the Spanish and French corner.

Already in 1992, in the case of *John Doe v. Eckhard Schmitz*, the *Bundesgerichtshof* ruled that U.S. punitive damages awards cannot be enforced in the German territory. The German Supreme Court referred to various arguments underlying this decision. It underlined the compensatory function of German private law and noted that enrichment of the plaintiff is prohibited. The Supreme Court further held that punishment and deterrence are objectives that belong to the criminal law sphere. Punitive damages interfere with

<sup>106</sup> Cass. It. (civ.) 19 January 2007, no. 1183, *Rep Foro it* 2007 *v Delibazione*, no. 13, and *v Danni Civili*, no. 316; *Corr. Giur.* 2007, no. 4, p. 497, transl. F. QUARTA, "Recognition and Enforcement of U.S. Punitive Damages Awards in Continental Europe: The Italian Supreme Court's Veto", 31 *Hastings Int'l & Comp. L.Rev.* 2008, Appendix A, p. 780-782.

<sup>107</sup> Cass. It.(civ.) 8 February 2012, *Soc Ruffinatti v Oyola-Rosado*, no. 1781/2012, *Danno resp* 2012, p. 609.

<sup>108</sup> Cass. It., 5 July 2017, *Axo Sport S.P.A. v. Nosa Inc.*, no. 16601/2017.

the State's monopoly on penalisation because a private person acts as public prosecutor. The defendant cannot rely on the fundamental guarantees that are available to him in criminal law proceedings. The *Bundesgerichtshof* also rejected the parallel between penalty clauses and punitive damages.<sup>109</sup>

## Chapter VI. Conclusion

This contribution used the ruling of the European Court of Justice in *OTK v. SFP* as cause to discuss the enforcement of punitive damages judgments in the EU. The European Court of Justice held that Article 13 of the Enforcement Directive does not preclude national legislation, under which the holder of an intellectual property right that has been infringed may demand from the person who has infringed that right either compensation for the damage that he has suffered, taking account of all the appropriate aspects of the particular case, or, without him having to prove the actual loss, payment of a sum corresponding to twice the appropriate fee which would have been due if permission had been given for the work concerned to be used. The impact of the judgment on Belgian court decisions awarding more than the actual damage is such that these decisions should no longer be frowned upon because the European Court of Justice has now given its seal of approval to extra-compensatory damages at the national level. The amount granted should in any case not exceed the loss suffered so clearly and substantially as to create an abuse of rights.

As Member States' courts can award punitive damages for violations of intellectual property rights, the enforceability of judgments containing this contentious remedy needs to be addressed. Within the EU the refusal of such judgments seems highly undesirable given the strong language of the Brussels *Ibis* Regulation (requiring that enforcement be *manifestly* contrary to public policy) and the principle of mutual trust between EU Member States.

For judgments coming from third States, the situation is quite different. It became clear that every country has construed the (international) public policy exception differently. Germany has rejected punitive damages because the concept itself violates (international) public policy. As things stand, the likelihood of recovering US punitive damages is, therefore, virtually nil. France and Spain on the other hand have accepted the compatibility with (international) public policy. The latter countries have instead focused on an investigation of the amount granted by the foreign Court. In France the *Cour de cassation* seems to have limited its tolerance of punitive damages to an amount equal to the compensatory damages awarded. In Spain the level of acceptance is higher as treble damages were given the green light by the *Tribunal Supremo*. The Italian Supreme Court traditionally adopted the same approach of rejection as its German counterpart but has very recently joined the Spanish and French position.

<sup>109</sup> BGH 4 June 1992, *BGHZ*, no. 118, p. 312; *NJW* 1992, p. 3096; *RIW* 1993, p. 132; *ZIP* 1992, p. 1256 (English transl. of the relevant parts of the judgment by G. WEGEN and J. SHERER, "Germany: Federal Court of Justice decision concerning the recognition and enforcement of U.S. judgments awarding punitive damages", 32 *I.L.M.* 1329 [1993]).

What these judgments mean for other countries, such as Belgium, is uncertain. It remains to be seen how new courts will respond when faced with punitive damages in enforcement proceedings. First, it is doubtful whether they will accept the institution of punitive damages. Second, assuming they embrace the concept *in se*, it is very difficult to predict at which point foreign punitive damages will be deemed intolerable in light of (international) public policy considerations.

### *Samenvatting*

In *OTK v. SFP* besliste het Hof van Justitie dat artikel 13 van richtlijn 2004/48 zich niet verzet tegen een nationale regeling waardoor de houder van een intellectueel eigendomsrecht, van de inbreukmaker hetzij vergoeding van de door hem geleden schade kan verlangen rekening gehouden met alle passende aspecten van het concrete geval, hetzij – zonder dat hij de feitelijke schade hoeft aan te tonen – betaling kan vorderen van een bedrag van tweemaal de passende vergoeding die verschuldigd zou zijn geweest indien toestemming was verleend om het betrokken werk te gebruiken. Deze bijdrage bespreekt dit recente arrest van het Europees Hof van Justitie in de zaak *OTK v. SFP* en haar effect op de implementatie van artikel 13 van richtlijn 2004/48.

De bijdrage analyseert vervolgens of buitenlandse gerechtelijke beslissingen die punitive damages bevatten ten uitvoer gelegd kunnen worden in België, enerzijds wanneer zij uit een ander EU-land komen en anderzijds wanneer zij van buiten de EU komen.

### *Résumé*

La Cour de justice, dans l'affaire *OTK v. SFP*, a décidé que l'article 13 de la directive 2004/48 ne s'oppose pas à une réglementation nationale, selon laquelle le titulaire d'un droit de propriété intellectuelle lésé peut demander soit la réparation du dommage qu'il a subi, en tenant compte de tous les aspects appropriés du cas d'espèce, soit, sans que ce titulaire doive démontrer le préjudice effectif, le paiement d'une somme correspondant au double de la rémunération appropriée qui aurait été due au titre d'une autorisation d'utilisation de l'œuvre concernée. Cette contribution analyse l'arrêt récent de la Cour de justice de l'Union européenne ainsi que son effet sur la mise en oeuvre de l'article 13 de la directive 2004/48. La contribution analyse ensuite si des décisions judiciaires étrangères contenant des dommages et intérêts punitifs peuvent être exécutées en Belgique, soit venant d'un autre état membre soit venant de l'extérieur de l'Union européenne.