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Supreme Court rules on judges' discretion to decrease amount of compensation for trademark infringement

Russian Federation - A Zalesov & Partners Patent & Law Firm LLC

- **Trademark owners may claim compensation for infringement under Article 1515 of the Civil Code by choosing one of three methods of calculation**
- **Some uncertainties remain as to the courts' discretion to decrease the amount of compensation at their own initiative**
- **Two recent Supreme Court rulings go some way to reducing such uncertainties**

Background

The Russian trademark enforcement system is rather effective, but it is also commonly known that it is easier to obtain an injunction in a trademark infringement dispute than adequate compensation for damages. This is mostly due to the difficulties in proving the amount of actual damages, which arise from:

- the lack of discovery;
- the very limited possibilities for the plaintiffs to investigate the activities of the defendants; and
- the understandable unwillingness of the economical courts to assume the function of investigators.

Article 1515 of the Civil Code, which allows trademark owners not to prove damages but, rather, to claim so-called 'compensation', offers a possibility to reinstate some balance between trademark owners and infringers. The compensation based on Article 1515 may be claimed based on the following options:

- a lump sum ranging from Rb10,000 (approximately €120) to Rb5 million (approximately €61,000);
- double the price of the infringing goods; or
- double the reasonable royalty rate.

The trademark owner must choose one of the listed alternatives (although, under the current practice, the trademark owner can switch from one way of calculating compensation to another during the proceedings), but the court cannot switch to another option at its own discretion. Importantly, the court can decrease the amount of claimed compensation at its own discretion where the plaintiff chooses option 1, but cannot decrease such amount where the plaintiff chooses options 2 or 3, unless the lower amount is clearly proven by the evidence provided. Another key point is that the proportionality defence can be used only where the plaintiff chooses option 1. In this case, the courts may decrease the overall amount of compensation for the infringement of several trademarks to a level lower than the minimal amount prescribed by law.

For options 2 and 3, the proportionality issue is discussed only where:

- the defendant is an individual entrepreneur;
- the losses can be calculated with a reasonable degree of reliability;
- their excess is proven by the defendant; and
- the circumstances indicate that the infringement was committed by an individual entrepreneur for the first time, was not an essential part of their commercial activity and was not of a rude nature (Constitutional Court ruling No 40-P of 24 July 2020).

Although option 1 seems to be the easiest way to obtain at least some compensation for damages where there is no clear evidence of the scale of the infringement, this option is the most uncertain in terms of the facts that must be proven. Under court practice, the court satisfies claims for compensation based on option 1 by taking into consideration the scale, length and character of the infringement, as well as the infringer's behaviour. This uncertainty means that the outcome of such cases is the least predictable, and that the decisions are vulnerable to cancellation by the higher instances.

Supreme Court decisions

Any development in the court practice leads to the elimination of such uncertainties, which is why the 14 September 2021 ruling of the Supreme Court panel on economic disputes in Case No A73-8672/2020 is noteworthy.

The plaintiff claimed compensation based on option 1 for the infringement of five trademarks and one copyright - thus claiming a certain sum for each object. Since all six IP rights were infringed by one product, the lower-instance courts decreased the total amount of compensation to a level lower than the minimum amount provided by law (which is allowed for individual entrepreneurs pursuant to the Constitutional Court ruling No 28-P of 13 December 2016).

However, the Supreme Court noted that the defendant in this case never appeared and did not give any counter-calculations, and that the courts had decreased the amount of compensation only at their own initiative. The Supreme Court stated that, although the amount of compensation can be decreased by the court, the court's discretion is limited by the arguments of the parties; therefore, if the defendant does not prove that the claimed amount is unreasonable, the court cannot use its discretion to lower the amount.

It is hoped that this approach will soon be applied not only to cases where the court decreases the amount of compensation below the minimum amount allowed, but also to all cases where the courts have discretion to decrease the amount of compensation at their own discretion.

The 26 October 2021 ruling of the panel of the Supreme Court on economic disputes in Case A50-908/2020 should be also noted when defining trademark enforcement strategies. The ruling touched on the issue of whether a plaintiff can combine different ways of calculating compensation in a single case.

In this case, the plaintiff filed a combined claim, arguing that the defendant had obtained Rb36 million from the infringement and asking the court to divide this amount into two: for one half he used the calculation method under option 1; for the other half he used option 2, but decreased the amount to Rb800,000. The appeal court and the IP Court did not consider this amount to be exceedingly unreasonable and found that, since the defendant neither provided a counter-calculation nor proved that the claimed amount was too large, there were no grounds to refuse the claimed amount provided that the infringement was proven.

The Supreme Court overturned all judicial acts of the three previous instances and sent the case back to the first instance. The Supreme Court held that the courts cannot satisfy compensation claims based on two methods of calculation, even if the final amount of compensation is reasonable in view of the facts of the case.

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TAGS

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