

# Claiming compensation for IP infringement

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IP right owners suffer a huge amount of damages in some IP right infringement cases as they invest substantial amounts for their rights. Therefore, compensation claims are of vital importance for IP right owners in order to recover their damages, protect reputation and have a deterrent impact on the infringing party.

Since every IP right infringement act is primarily a tort, it is necessary to prove the wrongful act, fault of the infringing party, incurred damage and the casual link between those to be compensated.

However, it might be disadvantageous for the right holder if concrete damage has to be strictly proved considering the abstract nature of IP right infringement cases. Therefore, it is stated in the Court of Appeals (CoA) decisions that right holders should be compensated without seeking concrete damage if the infringing act occurred and the relevant conditions are met.

Moreover, the CoA finds even “risk of damage” sufficient for compensation in IP right infringement cases and accordingly in one of its decisions, the CoA stated that “... defences such as that the subject matter products were not put into the market, not tested after production and were waiting to be destroyed are not admissible considering the fact that the defendant is a trader and shall act diligently and therefore it should be accepted that the defendant’s unauthorised use of the plaintiff’s mark is faulty. First Instance Court’s ruling on cease of infringement and the payment of material damages in the amount of TRY 6.500, 00 and moral damages in the amount of TRY 5.000,00 by the defendant is legitimate and should be upheld”. In this case, the CoA clearly accepts that even though the subject matter products infringing third parties IP rights are not



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launched in the market yet there is still harm caused to the right holders which needs to be compensated.

Considering the above, there will be a presumption that IP rights are violated and compensation conditions are fulfilled where the infringing party deliberately or negligently commits the faulty act by citation or quotation.

It is still difficult to determine the degree of fault and the exact amount of damage caused by the faulty act in IP right infringement cases in comparison with ordinary tort cases. However, in parallel with the previous regulations, the Industrial Property Code no. 6769 (IP Code) also provides highly advantageous provisions for compensation actions to right holders.

In particular, the IP Code allows the right owners to request loss of profit, even if there is no actual damage from the infringement and also grants the right owners alternative calculation methods for their loss of potential profit. In addition, right owners are entitled to apply to the court for determination of evidence to provide the relevant information and documents needed for calculation of the damages before filing the compensation action. Having said that, compensation actions, requiring the examination of the commercial books of the opposing party, especially through expert discovery, are generally long-lasting and complicated procedures in practice.

According to the IP Code, above all, actual damages can be requested from the infringing party. Within the scope of actual damages, the infringing party can be asked to recover the expenses incurred by the right owner for the prevention and elimination of the infringement/confusion created in the market as well as the expenses for filing the legal action.



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### How are damages calculated?

For the calculation of the loss of profit, Article 151/2 of the IP Code grants the right owner alternative rights and upon the choice of the right owner, the loss of profit shall be calculated according to one of the following methods – each method has advantages or disadvantages in circumstances of a concrete dispute:

- **Potential income of the right owner, if there had been no competition from the infringing party**

This method, although it fully corresponds to the concept of "loss of profit", is the least chosen one by right owners since the calculation of damages according to this method does not always give a practical and healthy result, considering that in most cases the right owner does not need to lose income/profit because of the infringement.

Therefore, except for cases with concrete and strong evidence proving the potential income of the right owner if there had been no competition of the infringing party can be filed in the court. The calculation of damages according to this method is often accepted as risky in compensation actions.

- **Net profit of the infringing party**

Using this method, an examination of the commercial books and records (domestic and foreign sales invoices etc.) of the infringing party is required. This method seems to be an easy option apart from the calculation process and increases the compensation amount by not taking account of

the effect of the infringing use on the profits made. The result is heavily dependent on the records and commercial books of the infringing party. However, as the commercial books and records of the infringing parties may not be properly kept, there is a risk that the right owners can face unreliable calculations and long-continued examinations.

In order to minimise this risk and fully determine the amount of damage, determination of evidence in the commercial books and records of the infringing party can be done before filing a lawsuit for damages and the infringed party may choose other methods if it has been revealed that the records are significantly inadequate to determine the compensation amount.

- **Licence fee that would have been paid if the infringing party had made use of the IP right under a licence agreement**

This method, also referred to as “hypothetical licence fee”, is considered the most efficient of all. If the right holder can submit a sample licence agreement to the case file, the licence fee in the sample agreement is mostly taken into account by the court and applied to the case.

However, if the right holder cannot submit a sample licence agreement, then the court shall take the conditions of the dispute and the economic value of the IP right into consideration and assess a reasonable fee according to the business capacity of the infringing party.

The court can also order payment of an additional compensation amount on an equitable basis if the IP right was the determining factor in the sales of the infringing product, where the first or second method of calculation is chosen by the right owner for its loss of profits.

It is necessary for the plaintiff party to state clearly which method should be applied to the calculation of loss of profits in the plaint petition while filing the court action. Therefore, each method should be evaluated thoroughly considering its advantages and disadvantages before filing such action. If it is not specified in the plaint petition, the court shall grant time to the right owner to explicitly state the method which should be applied.

Another important issue with the calculation is how to proceed in cases where it is not possible to conduct a clear calculation with the method preferred by the right owner. In this scenario the court should rule for a fair amount of compensation pursuant to the general provisions of the Turkish Code of Obligations (“TCO”) if a new method has not been designated by the right owner or the new designated method fails to provide a certain amount of compensation again. The CoA’s decisions on the matter also assert that a fair amount of compensation should be ordered as per Article 50/2 of the TCO.

For instance, in its October 8 2007 and January 15 2019 dated decisions where the compensation amount could not be determined from the defendants’ commercial books and records, the CoA clearly stated that a fair amount of compensation

should still be paid by the infringing party according to Article 50 of the TCO by taking into account that the infringing act caused harm to the plaintiff.

## The process

It is obligatory to ask for an exact compensation amount while filing the court action under Turkish Law. Since it requires full access to the records of the infringing party, it generally causes difficulties for right owners at the beginning of the court procedure. As the court fees and (in case the court action is totally or partially dismissed) legal attorney fees of the counterparty will be calculated by taking into account this amount, the compensation should be thoroughly assessed by right owners before filing the court action. In order to avoid difficulty determining the compensation amount, parties generally apply for unquantified debt lawsuits as per Article 107 of the Code of Civil Procedure No. 6100. In this way, the first approximate compensation amount can be increased by the right owner after the examination of the counterparty’s relevant records.

In addition to material damages, IP right owners can also claim compensation both for moral damages and reputational loss. In its several decisions, the CoA has stated that the infringing party’s wrongful act is sufficient for compensation for moral damages, and the amount should be calculated according to the degree of fault whereas, for loss of reputation cases, it is not appropriate for courts to rule on compensation. Infringed parties need to prove that the infringing act caused loss of reputation for their business activities and intellectual property.

Lastly, it should be stated that as to Article 20 of the Law No. 7155 on the Initiation of Enforcement Proceedings Regarding Monetary Claims Arising from Subscription Agreements which was published in the official gazette on December 19 2018 and amended in the Turkish Commercial Code by adding the new Article 5/A, the plaintiff should apply for a mandatory mediation process as a pre-condition before filing a lawsuit for commercial cases where compensation claims and/or any other monetary claims are involved. This new regulation as to the mandatory mediation process entered into force on January 1 2019.

Since compensation claims relating to IP rights infringement also fall under this scope, as of January 1 2019, parties who seek compensation for IP right infringement must first apply for mandatory mediation, then file the court action if it fails to provide an agreement between the parties. Otherwise, courts dismiss cases on procedural grounds without dealing with any examination on the merits due to the lack of this pre-requirement.

Considering the fact that the conflict resolution system in Turkey is culturally based on court actions rather than alternative dispute resolutions it is difficult to foresee the future effects of this new mandatory mediation process. However, it is expected to alleviate the courts’ heavy workload and is being monitored by practitioners with great interest to see whether it will shorten the process and provide a fair deal for both parties without the need for a court action.