Portuguese Supreme Court sets new boundaries for compensation for copyright infringement

Making use of the discretionary power granted by national copyright law, the Portuguese Supreme Court has made compensation for infringement of the reproduction right dependent on actual damages.

Auto Desk Inc. and Microsoft Corporation v *dA defendant* (Portuguese Supreme Court of Justice), 30 April 2008

Legal context

In line with Council Directive 91/250 of 14 May 1991 on the legal protection of computer programs and Directive 2001/29 of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, the Portuguese Copyright Law ("PCL") grants to the author, *inter alia*, the exclusive rights of reproduction and distribution.

In the case of infringement of these rights, the PCL further establishes that the right holder is entitled to receive damages. These are awarded by taking into consideration a number of factors: the profit obtained by the infringer, the *damnum emergens* and *lucrum cessans* of the right holder and the costs the right holder bears in relation to the protection and enforcement of his rights (Article 211(2), PCL). When determining quantum, the court must also consider moral damage that might have

occurred, the extent of the illicit distribution of the work, the seriousness of the damage and the general circumstances of the infringement (Article 211(4) PCL).

However, Article 211(5) establishes that, should it be impossible to determine the damage actually suffered by the right holder, the court may resort to two alternative factors when settling the minimum sum: the value of a fictitious licence and the cost of enforcing and protecting the right holder's rights.

Finally, Article 211(6) posits that the court may establish the quantum taking into account all the factors laid down in the previous paragraphs, should the conduct of the infringer be reiterated or especially grave.

Facts

The defendant made several copies of computer programs and videogames without the consent of the plaintiffs, copyright owners. Since his intention was to sell those copies, he created two websites to publicise his business.

Once a purchase order was placed, the defendant would send out the corresponding copy by regular mail. The payments registered by the post office amounted to Euro 110,104.01, but many other payments were made either by wire transfer or in cash. Moreover, the police found 5,025 illegal copies of copyright material in the defendant's residence.

Analysis

In this landmark decision, the Supreme Court stressed the difference between the loss suffered and the gain lost and the need to establish were the former ends and the latter begins.

The Court ruled that there must be a causal link between the infringement and the damage (Articles 562 and 563 of the Portuguese Civil Code). The plaintiffs would therefore suffer damage whenever someone did not legally purchase the software which they commercialised, having acquired it instead from an illegal source. Thus the fact that the defendant made copies of computer programs and other copyright material did not amount to an act worthy of compensation as such—it would be necessary to commercialise the infringing copies further before such damages become compensable. Thus, of all the illegal copies made, only those which were actually sold were considered for purposes of computing compensatory damages.

Surprisingly, the Supreme Court rejected the suggestion of the plaintiffs, who submitted that the defendant should pay the equivalent to the licence fee he would have paid, if he had asked for the necessary permission to make and sell the copies. This option, apart from being an expression of the Court's discretionary power, would have been in line with Article 211(5), referred to above. Indeed, given the impossibility of

knowing the amount paid to the defendant by wire transfer or in cash, the Court had an open door to apply that proviso.

Even if the Court did not wish to use that alternative, it could still have called upon Article 211(6): the fact that the defendant was found in possession of 5,025 infringing copies, grouped with the creation of two websites supporting his illegal activity, should be sufficient overall to consider his conduct as a reiterated one.

Practical significance

From a purely academic point of view, the Supreme Court confirmed a long-standing doctrine, adopted by many scholars worldwide, which asserts that the reproduction right is merely instrumental in relation to other economic rights (see, e.g., H. Wistrand, *Les Exceptions Apportées aux Droits d'Auteur sur ses Oeuvres* (1968) 313 ff.).

However, the Supreme Court gave a new, practical dimension to that statement, for its effects now reflect questions relating to enforcement: is it that now any infringement to the reproduction right is a crime without punishment, although there is a law? One might argue that the infringer still has to face criminal liability. Still, the compensation would definitely play an important role when it comes to applying an adequate sanction. Additionally, one must bear in mind that clear cut evidence of distribution of infringing copies will hardly ever be available, inasmuch as the infringers are not usually meticulous keeping records of their infringing "business transactions".

This decision of the Supreme Court simply makes serial piracy an (even more) affordable business: as long as the infringer does not keep any records of transactions, he will presumably be safe.

Importantly, and in addition to shedding light on the scope of the compensation for copyright infringement, the decision of the Supreme Court reminds us of the fact that, when deciding which factors to apply when calculating compensatory damages, the discretionary power of the Court is the ultimate criterion.